Austria	Sch 20	Indonesia	Rp 3100	Philippines	Pes. 20
Bahrain	Din 0.650	Israel	NS 3.50	Portugal	Esc 100
Belgium	BFr 45	Italy	L 1800	S. Arabia	Rls 6.00
Canada	C$1.00	Japan	Y600	Singapore	S$ 4.10
Cyprus	C£0.75	Jordan	Fils 500	Spain	Pta 125
Denmark	DKr 9.00	Kuwait	Fils 500	Sri Lanka	Rup 30
Egypt	E£1.50	Lebanon	£L 50.00	Sweden	SKr 8.00
Finland	Fmk 7.00	Luxembourg	LFr 45	Switzerland	SFr 2.20
France	FFr 6.50	Malaysia	Rm 4.25	Taiwan	NT $35
Germany	DM 2.20	Mexico	Pes. 300	Tunisia	Din 0.800
Greece	Dr 80	Morocco	Dh 6.00	Turkey	L 350
Hong Kong	HK$ 12	Netherlands	Fl 3.00	U.A.E.	Dh 6.50
India	Rup 15	Norway	NKr 7.00	U.S.A.	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,149 — Monday February 2 1987 — D 8523 B

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Cory Aquino takes the people's test, Page 18

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World news | Business summary

Tamils say police shot 200 civilians

Tamil spokesmen in Batticalda, capital of Sri Lanka's Eastern Province, claim that 200 civilians, mostly Tamils, were killed in a four-day operation by a special police commando task force.

Sri Lanka's Government says the charge is a "wild allegation" and that only four civilians died in fighting which left terrorists and 13 policemen dead. Page 3

Reagan aide resigns

President Reagan's chief political adviser, Mr Mitchell Daniels, 37, has resigned to join a research institute. Mr Daniels has called for White House chief of staff Mr Donald Regan to step down over the Iran arms scandal.

Israeli-Soviet talks

Israel's Foreign Ministry said it held talks last month with Soviet officials in Washington which dealt with the relaxation of exit restrictions on Soviet Jews and on possible Soviet participation in a Middle East peace conference.

Radioactive milk ban

The West German Government is likely to stop the planned export to Third World customers of 3,000 tonnes of milk powder contaminated by radioactivity during the Chernobyl nuclear reactor disaster. Page 2

Karachi rioters shot

Karachi police fired at more than 1,000 demonstrators throwing bombs at a police station, killing at least two people and wounding 50, bringing to eight the death toll in four days of rioting.

Genoa paralysed

The port of Genoa was paralysed as dock workers staged wildcat strikes following last week's accord between the port authority and national trade union leaders over manning levels. Page 4

Kabul explosion

A car bomb exploded outside the Indian embassy in Kabul, capital of Afghanistan, killing four people, including two children, Kabul radio said.

Greek earthquake

An earthquake measuring 5.1 on the Richter scale hit the southern Ilia area of the Greek Peloponnese islands but caused neither casualties nor damage.

W. Berlin raid

West Berlin police raided a political meeting in a city bar and arrested 48 people for allegedly breaking an Allied military law banning the propagation of the aims of the Nazi party. The 48 were later released.

Fishing zone imposed

UK defence officials reported no incidents in the South Atlantic following the imposition of a 150-mile fish conservation zone around the Falkland Islands.

Israeli bus bombed

At least nine people were injured when a bomb exploded aboard an inter-city bus near Hadera in northern Israel.

Hotel fire kills 17

Fire swept through a hotel in the south Taiwan city of Kaohsiung, killing 17 people and injuring 13.

Skier vanishes

Rescuers combed the Mont Blanc area for a 38-year-old Briton who went skiing alone in the Chamonix valley on Thursday but had not been seen since.

Bargain fare

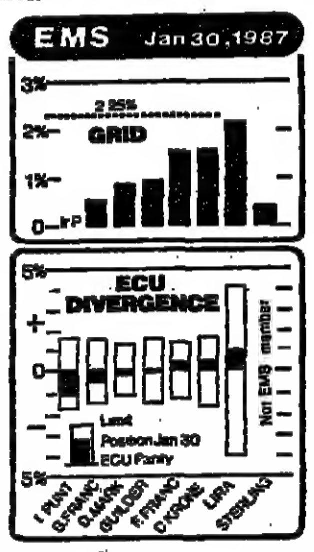
Dutch carrier Transavia Airlines has asked permission from the Civil Aviation Authority to introduce an economy return fare between Amsterdam and London of £116, which *it says is £30 less than the cheapest* current fare.

UK picks GEC for Indian project

GEC, UK engineering and electronics group, has been chosen to lead a consortium of British companies which hopes to build the second stage of the Rihand power station in northern India at a cost of around £300m ($454). Page 3

BANK OF ENGLAND appears to have been buying large amounts of *gilt-edged stocks* on the assumption that the UK Public Sector Borrowing Requirement will be substantially below the £7.1bn ($10.9bn) budgeted. Page 20

EUROPEAN Monetary System: A stronger dollar and a cut in the *West German discount rate helped* to underpin weaker members of the EMS last week. The Irish punt remained the weakest currency while the Belgian franc, traditionally one of the weakest members, showed useful gains. The Bundesbank had *intervened on a small scale during* the early part of the week to support the dollar, but the US unit's main impetus came from Friday's better than expected US trade figures.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO: Nikkei index fell 24.8 in Saturday's half-day session after seven days of advances. It closed at 20,023.55. **Leading share prices, Page 35**

UK GOVERNMENT bond turnover has almost trebled to about £1.6bn ($2.46bn) since Big Bang deregulation on October 27. Page 8

INDONESIA: Finance Minister Radius Prawiro said the Government would not reschedule its $30bn foreign debt but instead seek concessionary *finance to lessen the country's* debt burden. Page 4

MONTEDISON, Italian chemicals, energy and pharmaceuticals group, announced an 8.1 per cent increase in gross operating profits for 1986 to L1,600bn ($1.2bn). Page 23

FRENCH WINE: Britain has overtaken the US as the world's leading importer. About 45 per cent of wine bought in the UK comes from France, 30 per cent from West Germany, 15 per cent from Italy and 7 per cent from Spain.

NEW ZEALAND entrepreneur Ron Brierly has entered the battle for control of Resorts International, the $350m Atlantic City casino business. Page 23

TEXAS billionaire H. Ross Perot, founder of Electronic Data Systems, has joined Steve Jobs, founder and former chairman of Apple Computer, as an "investment partner" in Jobs' new venture, Next, *developing high performance* workstations for colleges. Page 23

BANCO de Vizcaya, Spain's fifth largest commercial bank, is paying a sharply higher dividend on net profits that increased by 37.5 per cent *last year to Pta 18.1bn ($142m).* Page 23

Kidnappings leave West Beirut haunted by fear and gloom

BY NORA BOUSTANY IN BEIRUT

A BRITISH woman friend, no longer confident that she can reason her way out of any hair-raising situation in West Beirut with its wholesale *kidnappings* and a *maddening* collapse of all sense of order, summed up the atmosphere in the Lebanese capital with: "Thinking has been suspended."

Strong reports that the special envoy of the Archbishop of Canterbury, Mr Terry Waite, is being detained by the captors of kidnap victims he was tirelessly trying to free capped 10 days of a darkening mood. Nine foreign nationals, including a French journalist, a Saudi diplomat, two West Germans, three Americans and an Indian, have been kidnapped at gunpoint since Mr Waite arrived in Beirut to resume his humanitarian mission.

The attempted kidnapping of a Swiss relief worker delivering supplies to the Shia *southern suburbs* last week sent shudders down the spine of a *handful* of plucky Western women, who believed they were immune to such attacks in a predominantly Moslem society.

"I find it very hard to believe they would kidnap women. But for the first time, there is that nagging doubt in the back of my mind, and I *know the fear* that drove my male friends out long ago," a British female journalist conceded. "A lurking gunman guarding a street corner petrifies me now while I accepted it as part of the scenery only one month ago," she said.

Grey, hazy weather, the lingering stench of uncollected garbage and marauding gunmen whose affiliation or motives are no longer easy to discern contribute to a feeling of uneasiness in the streets. Power *cuts, a feeling that West Beirut is* on the edge of yet more apocalyptic security blow-ups have pinned people in their homes as they ponder whether to dig in and survive yet another crisis or abandon a city that once lured them and captivated them.

"I don't want to look over my *shoulder* every second of my life," complained one woman. "Even the Lebanese are nervous. They are not as much support these days as they *used to be. They are just as nervous* about the bad things happening all around them," she said.

Even International Red Cross workers, who became the only foreigners to be sighted at West Beirut's few restaurants and night spots, now stay home and foreign females are keeping their movements to a minimum.

"My frontline argument has always been that I am a woman," said Marylin Raschka, an American linguistics *professor at the American* university of Beirut, who may now have to leave in view of President Ronald Reagan's ban on US passport holders to travel to Lebanon and an order to all Americans to leave within 30 days or face prosecution.

The multiple abduction of four university professors on January 24, prompted the US Administration, as the British Government had done before, to order out all US expatriates. Yet another clandestine group, Islamic Jihad for the Liberation of Palestine, announced its birth last week and claimed responsibility for the on-campus kidnappings, which have triggered daily demonstrations by students protesting the injustice done to their teachers and the suspension of their courses.

As an indication of the worsening situation, Lebanon's flagcarrier, Middle East Airlines, suspended flights to and from Beirut yesterday after insurance companies lifted their cover for passengers and crew following Christian militia threats to shell Beirut International Airport.

MEA chairman Selim Salam pointed out yesterday that the airport was not officially closed but that his airline was "sad to announce that its flights would be temporarily suspended because insurance companies had suspended policies covering passengers and crew." The decision followed reports that the Lebanese forces, the Christian militia, would shell Beirut International Airport if the opening of a new airport north of Beirut was not authorised. Moslem leaders are opposed to such a development on the grounds that it would be a partitionist move.

Christians unable to use Beirut's only airport, located in the Moslem sector, have been forced to travel by sea to Cyprus to make other connections.

The fate of Mr Waite remained *unknown despite Druze chieftain* Walid Jumblat's disclosure that he had offered himself as a hostage in return for Mr Waite's freedom. He said he had told an unnamed political party asked to help in the search for Mr Waite to take him instead if Mr Waite was indeed a hostage.

In London, a Church of England spokeswoman said Mr Waite had left a letter before he flew to Lebanon saying that no ransom should be paid and no lives risked to rescue him if he was kidnapped.

The future of missing foreign professors also appeared just as bleak yesterday after Israel had rejected their captors' demand for 400 guerrillas to be released from Israeli jails. Israel Defence Minister Yitshak Rabin said it was "inconceivable... (that we would) arrest, put on trial and imprison thousands of guerrillas to serve as an international bank reserve that one draws on (to free) hostages."

The group calling itself Islamic Jihad for the Liberation of Palestine said on Saturday it would kill the four university lecturers if 400 prisoners were not freed from Israeli jails within a week. "We will execute them and throw their corpses on the garbage cans of Cyprus," it said.

Another statement delivered to an international newsagency suggested that, if 400 prisoners, whose nationality was not specified, were flown to Damascus on a Red Cross aircraft, the four hostages would be freed.

Talks on Waite's safety, Page 2

Baker and Pöhl agree that $ has reached 'a reasonable level'

BY LIONEL BARBER IN WASHINGTON

AFTER MONTHS of open public disagreement over economic policies and the value of the dollar Mr James Baker, the US Treasury Secretary, and Mr Karl Otto Pöhl, President of the West German Bundesbank, yesterday appeared to try and put their differences behind them. They attempted to calm foreign currency markets by suggesting that the present values of the dollar and D-Mark were "in line with economic fundamentals" in their two countries.

Mr Baker steered clear of making any comment which could be interpreted as backing a further decline in the dollar against the D-Mark and the yen. "The dollar has come down to a reasonable and orderly level" he said, denying that he and other members of his team at the US Treasury and been talking down the dollar in recent weeks.

The US Treasury Secretary added that the Reagan Administration was very pleased with West Germany's decision to cut the discount rate. "This was something we were anxious about," he said.

In the three months up to last month's West German federal elections Mr Baker and other senior US officials repeatedly pressured Bonn to stimulate its economy through a discount rate cut. But Bonn refused to yield, thereby increasing friction between the two allies and trading partners.

Mr Pöhl – who accused the US of "playing with fire" during last month's precipitous slump in the value of the dollar against the yen and D-Mark – was noticeably conciliatory towards the US yesterday during the same interview on ABC television.

He said that the 50 per cent devaluation of the dollar against the D-Mark since March 1985 had been a "necessary correction". He added that West Germany was aiming for lower interest rates, and cited the recent ½ per cent cut in the discount rate to 3 per cent as a sign of Bonn's willingness to meet American concern about slow growth in the world economy.

The dollar has declined by 7.4 per cent against the D-Mark and about 4.4 per cent against the yen this year, partly prompted by leaks from Reagan Administration officials that they were not concerned about dollar devaluation.

The leaks were largely influenced by political motives, notably concern about the record US trade deficit, which reached almost $170bn in 1986, fuelling protectionist pressures.

Last week, however, the Commerce Department reported a substantial improvement in the December 1986 trade figures, which amounted to a $10.7bn deficit. This suggested that the dollar devaluation appears to be at last improving America's terms of trade, although one month's figures are by no means conclusive.

Mr Malcolm Baldrige, Commerce Secretary, predicted this weekend that the US trade deficit would drop by $30bn-$40bn in 1987, and that the weakened dollar would make US exports grow substantially.

Yesterday neither Mr Pöhl nor Mr Baker referred to the possibility of a Group of Five meeting to discuss last month's wild currency gyrations. The Group of Five members are the US, West Germany, France, Britain and Japan and their meetings can have enormous impact on financial markets.

Mr Baker warned that the US could not cure its trade deficit through the value of the dollar alone. He said that the Reagan Administration intended to submit a competitiveness package (code for a trade bill) to Congress within the next two weeks.

Separately, Mr Baker described as "pure baloney" reports that he and other cabinet members had threatened to resign if Mr Donald Regan, White House Chief of Staff, did not go.

John Wyles in Davos, Switzerland, writes: Senior public officials from industrialised countries, including the US and Japan, share the view that a meeting of the Group of Five finance ministers is unlikely until they are able to agree on concrete measures to stabilise the dollar.

The officials held 10 hours of talks in Davos yesterday with their counterparts from 10 developing nations and six international organisations.

The participants, brought together by the World Economic Forum, an annual meeting of public leaders and top businessmen, were generally gloomy about the currency outlook. Many have been influenced by a forecast given here by Prof Lester Thurow of Mit, that the US trade deficit would not be eliminated until the dollar had fallen to Y100 and DM 1.1.

Paris unable to meet investor demand for shares in Paribas

BY DAVID HOUSEGO IN PARIS

THE FRENCH Government announced last night that it would be unable to meet individual investor demand for Paribas shares because of the unexpected success of the privatisation issue.

Mr Edouard Balladur, the Minister of Finance, appeared on French television to announce that 3m Frenchmen had applied for shares in the formerly secretive investment bank. Before nationalisation in 1982 it had a total of 150,000 shareholders.

However, Mr Balladur announced that the Government would have to scale back allocations to individual investors for whom preferential treatment had been accorded. They will now receive allocations proportional to the overall demand.

The Government is also scaling down its offer of one free share for every 10 shares held for a minimum of 18 months. Small investors will only receive a fraction of the share depending on the allocation.

The Government made available *14.7m shares at FFr 405* each to French investors. This represented 32 per cent of Paribas capital. One reason for the success of the issue was the expectation of a sizeable profit with the shares being quoted in the grey market last week at between *FFr 470 and FFr 500.*

In addition to cutting back on allocations to French investors, the Government will reduce by 10 per cent the 6.3m shares offered abroad – equivalent to 13.5 per cent of the group's capital.

The success of the *issue provides* an important boost for the Government's privatisation programme which began last year with Saint Gobain, the glass and pipes group. The Saint Gobain issue, the first in the programme, was 14 times oversubscribed with the Government having to use to the full the clawback on shares sold abroad.

Apart from the shares put on public offer in France the Government reserved 18.2 per cent of the capital for 17 major institutional shareholders paying a 2.5 per cent premium to give the group a stable shareholding base. Among the main shareholders are the oil group CFP-Total and three insurance companies. *Four foreign groups* hold 2.6 per cent of this block.

A further 7.5 per cent of the capital was reserved for employees at a discount of between 5 per cent and 20 per cent. The Government had also been planning to hold 4 per *cent of the capital in reserve to* meet the issue of free shares.

The non-voting certificates of investment, which account for 25 per cent of Paribas' capital, can be exchanged with no extra payment.

Power politics of Japanese privatisation, Page 4

Genscher urges West to accept Soviet initiatives

BY JOHN WYLES IN DAVOS

MR Hans-Dietrich Genscher, the West German Foreign Minister, yesterday boldly called on the Western alliance to believe in the changes taking place in Soviet domestic and foreign policies and to negotiate a new set of economic and arms control agreements.

"Our motto must be 'let us take Gorbachev seriously, let us take Gorbachev at his word,'" declared Mr Genscher in a major speech reflecting a new authority drawn from his Free Democratic Party's success in the recent West German elections. In the process, he went much further than any Western leader has done in responding to developments in Soviet policy.

He was strongly sceptical of suggestions that Mr Gorbachev was seeking a breathing space in Moscow's relations with the West to allow time for domestic regeneration before resuming the "old expansionism."

The Soviet leader's initiative "could not be brushed off as propaganda," he said. "If today there is a chance of reaching a turning point in East-West relations after 40 years of confrontation, it would be a *mistake of historic proportions* for the West to let the chance slip," Mr Genscher told the World Economic Forum, an annual meeting of top politicians and businessmen, in Davos, Switzerland.

Against the background of President Ronald Reagan's political setbacks over arms to Iran and the apparent conviction that a positive Western response could help Mr Gorbachev overcome domestic op*position to his reforms,* Mr Genscher seemed to be presenting himself as the West's potential interlocutor with Moscow.

Asserting that the Soviet leader's new domestic and foreign policies were "in the interests of the West," *Mr Genscher claimed that Mr Gorbachev* had clearly broken with the expansionist policies of the Brezhnev era.

Mr Genscher, repeatedly stressing the new opportunities for East-West relations which are now ap*pearing, emphasised that West Ger*many was not recasting its foreign policy, which would continue to be based on membership of Nato, the EEC and close Franco-German cooperation.

Peter Bruce in Bonn adds: Mr *Genscher's speech* can be seen as a blunt challenge to Chancellor Helmut Kohl to take sides on foreign policy as he begins to put together a new coalition Government for his second term in office.

The veteran Foreign Minister is *certain to keep his post. His* remarks about the Gorbachev administration are probably his most clear statement on policy towards the Soviet Union and are bound to upset conservatives in Mr Kohl's party and, probably, in Washington.

BBC raid by police sparks criticism

By Raymond Snoddy in London

THE BBC is to take legal advice about the police raid on its Glasgow headquarters, in which officers seized all material relating to the Zircon spy satellite and other programmes in the controversial television series Secret Society.

Special Branch officers from the Metropolitan and Strathclyde forces took away nearly 30 boxes and cartons of videotapes, out-takes, computer discs and notes from the studios where the series was produced.

The raid, which lasted 30 hours, is believed to be unprecedented in the history of British broadcasting. The search drew strong criticism from the opposition Labour and Alliance leaders, who will press today for a statement from the Government in the House of Commons.

Police took material relating to all six programmes in the series, not just the Zircon transmission, which had been banned by Mr Alasdair Milne, who was forced last week to resign as BBC director general. Mr Milne had cleared the other five programmes.

The police resumed their search at 3am yesterday after obtaining a third warrant. The first was overturned by a judge and the second was invalid.

Staff such as film editors and librarians were summoned in the

Search for a new director general, Page 5

Continued on Page 20

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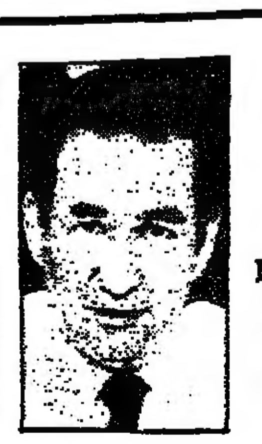


THE MONDAY PAGE

INTERVIEW

Patrick Buchanan, Ronald Reagan's communications director, talks to Lionel Barber, Page 10

Syria, Iran in talks on Waite's safety

A SENIOR militia official in Beirut said negotiations involving Syria, Iran and Lebanese militia leaders were under way yesterday to determine the fate of Mr Terry Waite, special envoy of the Archbishop of Canterbury, AP reports from Beirut.

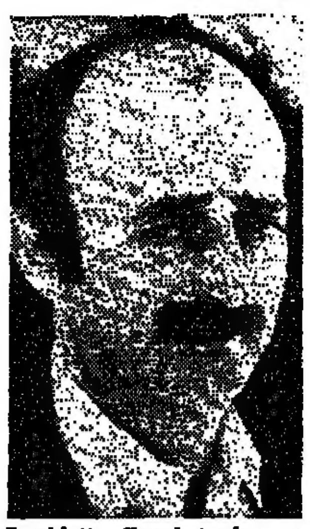
"These hush-hush talks are in high gear," said the militia official, who spoke on condition of anonymity. "The parties concerned are burning the wires trying to ensure Mr Waite's safety. Plenty of Syrian and Iranian emissaries are shuttling back and forth.

"The lack of direct word from Mr Waite since his disappearance two weeks ago has alarmed all sides concerned and every effort is being made to find out about him," said the official.

Mr Waite flew to Beirut on January 12 on his fifth trip to Lebanon to negotiate for the release of abducted foreigners.

He has not been heard from or seen since he left the Riviera Hotel in West Beirut on January 20, presumably to negotiate with Islamic Jihad, a pro-Iranian Shia faction that holds two Americans.

Mr Walid Jumblatt, leader of the Druze, whose militia had been in charge of Mr Waite's security before his disappearance on Saturday, offered himself as a hostage to replace Mr Waite if reports of his abduction were true.



Jumblatt offered to become a hostage

But the Church of England said its envoy had left a message forbidding any rescue mission, ransom payment or substitution of hostages if he were kidnapped.

Ms Eve Keatley, spokeswoman of the Anglican Church, said the statement from Archbishop Runcie about Mr Waite's message was issued after London's Sunday Express reported that "Beirut terrorists" were demanding a ransom of $4bn for Mr Waite's safe release.

Dr Runcie also said on Sunday that he had "no fresh news" about Mr Waite. "I have had some contact yesterday, indirectly. I am very anxious about where he is," he said.

At least three Beirut radio stations — one Christian, one Moslem and one state-run — quoted Mr Jumblatt as saying he had made the offer to become a hostage to a political party he did not name.

"I told them do not embarrass me. Take me hostage if you want. But I want to take delivery of Terry Waite," Mr Jumblatt was quoted as saying.

Eleven foreigners, including three Americans, two West Germans and an Indian, have been kidnapped in Moslem West Beirut since Mr Waite's arrival.

● Some 165 people died violently in Lebanon last month, at least 50 of them killed in battles over Palestinian refugee camps in Beirut and the south, police, hospital and militia sources said yesterday, Reuter writes from Beirut.

The toll compares with 318 deaths in December and 350 in January 1986.

At least 750 people are estimated to have died in fighting between Palestinian guerrillas and Shi Moslem Amal militiament over the past four months in the "camp's war."

Israeli air raids on Palestinian targets killed eight people last month and 24, including an Irish UN soldier, died in shelling of southern villages by Israel or its militia allies, the sources reported.

The Israeli-backed South Lebanon Army militia lost 22 men killed in attacks by Moslem guerrillas and a clandestine Moslem group said it had murdered a Lebanese Jewish hostage.

About 60 other people were killed in assassinations, street battls, car-bomb attacks, sniping across Beirut's Green Line divide or in non-political violence.

Terry Waite left a letter behind when he set off on his mission, saying no ransom should be paid for his release or lives risked to rescue him if he was kidnapped, the Church of England said yesterday.

Eve Keatley, a Church official, said Mr Waite left a written declaration with the Archbishop of Canterbury, Dr Robert Runcie.

"Terry Waite specifically said that no one should risk danger by coming to look for him, nor did he ever wish money or people to be exchanged for him, she said.

The full contents of the letter were confidential, she said.

Kidnappers offer swap for 400 Palestinians

By Andrew Whitley in Jerusalem

THE KIDNAPPERS of four university lecturers—three Americans and an Indian—seized in Beirut nine days ago have demanded the release of 400 prisoners being held by Israel in exchange for the hostages' lives.

A statement issued over the weekend on behalf of the previously unknown group, calling itself "The Islamic Jihad for the Liberation of Palestine," said the four would be killed if the prisoners were not released within a week.

In response, a spokesman for Prime Minister Yitzhak Shamir said yesterday that Israel would have nothing to do with the demands. He added: "I don't even think the Americans would expect us to." But the proffered exchange puts the Israeli Government on the spot

While taking a hard public line against any deals with terrorists, both the present administration and its predecessors have in practice been prepared to negotiate—and to exchange prisoners — when pressed.

Only last week, Mr Yitzhak Rabin, the Defence Minister, admitted to the Knesset (parliament) that one of the aims of the covert Israeli arms sale to Iran had been to secure the release of three Israeli servicemen believed to be held by the pro-Iranian Lebanese group, Hizbollah. Military analysts here believe the new group *holding the university professors* may also be linked to Hizbollah.

In May, 1985, Israel emptied its jails of 1,150 prisoners, some of them serving long jail sentences for terrorist offences, in return for three of its prisoners of war. The disproportionate scale of that swap generated considerable public criticism.

Prominent Knesset members from all parties yesterday added to the pressure against giving in to the kidnappers' demands. Mr Dan Meridor, a leading Likud parliamentarian, said the May, 1985, exchange should not serve as a precedent.

It was not immediately clear which detainees the underground group has in mind, as its statement referred vaguely only to "holy war strugglers held in Zionist Nazi jails in Palestine."

W... Germany's Greens ...d a leading lady

David Marsh in Frankfurt meets Jutta Ditfurth, self-possessed spokesperson of the Greens

RIGH... ...he end of the meal in a vegetarian restaurant near the Frankfurt Bourse last week, the elderly black-clad waitress aproached Ms Jutta Ditfurth, squeezed her arm confidentially and opined, "We women need someone who can stick up for us."

Ms Ditfurth, 35, who has risen meteorically to become one of the leading lights in West Germany's Green Party, over the past week since Sunday's elections has become used to being a well-known face.

"I am getting rung up and asked for interviews all the time—even from newspapers who refused to employ me when I was a journalist," she says with a smile.

The sharp witted and almost unnervingly self-possessed Ms Ditfurth, one of the Greens' three national spokespersons, has been bathing in the glow of victory in the wake of the Greens' success in the West German elections eight days ago.

They chalked up 8.3 per cent of the votes (up from 5.6 per cent in the last elections in 1983). The result confirmed that the party, going beyond its original nuisance value role, now is a permanent and potent force in German politics.

Ms Ditfurth, a social scientist born into a liberal bourgeois Frankfurt family (she has now dropped the aristocratc-sounding "von" from her name), symbolises the new confident face of the German left.

She is also at the centre of a debate which is bound to occupy ever more attention.

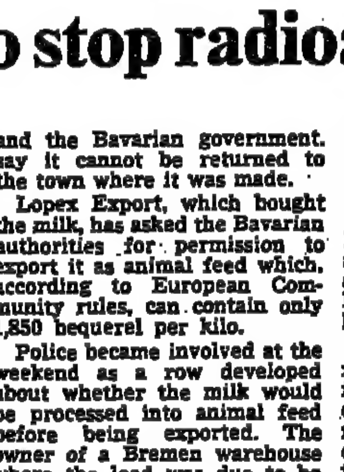
Will the Greens, now firmly established four years after entering the Bundestag, move towards an alliance with the main opposition Social Democratic Party (SPD) as a means of toppling the centre-right Bonn coalition?

Or will the party stick to the same principles of protest on which it was founded seven years ago and refuse to have any truck with "compromise policies" of the SPD?

Ms Ditfurth stresses she is not against all forms of collaboration with the SPD. But she sits very firmly in the so-called "fundamentalist" camp of the Greens which rules out any watering down of the party's radicalism — especially over its call for a prompt closure of German nuclear plants and an exist from Nato.

Ms Ditfurth is an ardent anti-nuclear demonstrator. Though not condoning violence, she says she "cannot distance herself" from the growing number of people who are committing what is now a terrorist offence by sawing down electricity pylons.

Proclaiming that, "reforms can be pushed through in parliament only if the strength comes from outside," she has already won her spurs across the battlefield of extra-parliamentary protest.



Ditfurth: not for breaking

She was chosen by the Greens, after some long drawn-out internal wrangling, to represent the party in a TV debate with Chancellor Helmut Kohl and other top (male) politicians on the Thursday before the poll.

She probably won a sizeable number of extra votes for the Greens by marshalling her arguments and standing her ground under furious attack from Mr Franz Josef Strauss, the Bavarian Prime Minister.

Her composed exhortations to "*calm down*" to a fulminating Mr Strauss went down as one of the highlights of the election campaign.

Ms Ditfurth says she has already won over five of the immediate members of her family (including her father, scientist-cum-writer Hoimar von Ditfurth) to the Greens cause. Only her younger sister has resisted.

She has a good head for facts and figures over energy policy or chemical pollution. In contrast to Mr Strauss, she is difficult to ruffle. She says she enjoys taking part in podium discussions with electricity industry representatives "because I normally win."

Yesterday in Frankfurt, she was scathing in her denunciation of overtures this week to the Greens from Mr Oskar Lafontaine, the 43-year-old Saar Prime Minister who is tipped to take over as the next SPD chairman.

The SPD's policy of moving away from nuclear energy only with the "consensus" of the atomic lobby is "absurd," she says.

Provided the Greens continue to campaign on "authentic issues—peace, the atom and rights for women," the party should eventually be able to win over 20 to 30 per cent of the electorate, she believes.

The next few years will show whether the Greens break the mould of German consensus politics—or end up broken themselves. Yesterday, Ms Ditfurth as she rode away on her bicycle after the meal was not in a breaking mood.

Shultz hits out at Iran arms deal

By Lionel Barber in Washington

MR GEORGE SHULTZ, US Secretary of State, suggested this weekend that US arms to Iran may have increased hostage-taking in Beirut.

Mr Shultz also suggested that the US may have to use military force against hostage-takers "when we have a clear target and know precisely what we are doing."

In a further show of his opposition to the former US policy of selling arms to Iran in return for the release of American hostages, Mr Shultz said the Reagan Administration had to make terrorists pay

He conceded in an interview with US News and World Report magazine that "the structure of the arms deliveries (to Iran) and the connection with the hostages may have gotten pretty tight.

"The more you make out of hostages, the more value is placed on them by the hostage-takers .

German hostages appeal to Kohl

THE two West Germans being held hostage by Shia extremists in Beirut, Rudolf Cordes and Alfred Schmidt, have sent letters to Chancellor Helmut Kohl appealing to him for help, Peter Bruce reports from Bonn.

The letters were apparently handed to the West German leader by an Arab acting as a middleman between Bonn and the kidnappers, who want Mohammed Hamadei, suspected of hijacking a TWA jet in 1985, released from a Frankfurt jail.

Lebanese airline halts flights

LEBANON'S national carrier, Middle East Airlines (MEA), halted all flights in and out of *Beirut yesterday until further* notice, an airline statement said, *Reuter reports from Beirut.*

The statement, issued after an airline directors' meeting, said the decision was taken following advice from insurers that all insurance cover of MEA passengers had been withdrawn.

The decision came a day after sources at Beirut airport said that MEA had been warned by the right-wing Christian Lebanese Forces militia to stop using the airport.

Lebanese Forces officials would neither confirm nor deny that the militia was responsible for threatening MEA.

Christian-controlled areas of Lebanon ground to a halt at the weekend in response to a Lebanese Forces call for a strike to back its demand for the opening of a makeshift airport at Halat, a highway strip 16 miles north of the capital.

Beirut international airport is sited on the southern edge of Moslem west Beirut, and many Christians fear being *kidnapped en route. They want* Halat to provide the minority community with a safer method of flying in and out of Lebanon.

The MEA statement said that Beirut airport was still officially open to other airlines.

But aircraft from Bulgaria's Bulkan, Czechoslovakia's SA and the Soviet Aeroflot airlines failed to land as scheduled, and had apparently been rerouted to Larnaca

Timetable of ill-fated mission

THIS IS the timetable of Terry Waite's latest mission to Lebanon.

He was last seen 13 days ago, when Druze militia bodyguards left him in the hands of the pro-Iranian Islamic Jihad Organisation.

January 12: Waite arrives at the Riviera Hotel, West Beirut.

January 13: French photographer becomes first of 13 foreigners to be kidnapped during the Waite mission. Walid Jumblatt, the Druze leader promises Waite support and protection, a new avenue in his campaign to release hostages.

January 15: Waite tells news conference of very good progress, but warns that no authority has direct control over the hostage-takers.

January 18: Kidnap of West German businessman is linked to arrest in West Germany of Mohammed Ali Hamadi, a Lebanese terrorist suspect.

January 19: Waite voices fears of being kidnapped himself. He announces contact with the Islamic Jihad group holding US hostages and plans to fly back to London next day.

Terry Waite

January 20: Waite disappears after telling journalists: "I must stay a little longer." Druze bodyguards leave him with Islamic Jihad negotiators at undisclosed location.

January 22: John Gray, the British Ambassador says he is concerned at Waite's absence amid the first rumours that he has been kidnapped.

January 24: Gunmen seize four professors at Beirut University — three Americans and an Indian.

January 26: Kuwait News Agency reports that Waite is under house arrest after talks with kidnappers run into trouble. Lambeth Palace officials in London began urgent inquiries.

January 27: The British Ambassador goes to West Beirut with an armed escort in a vain attempt to pick up Waite's trail. The Archbishop of Canterbury, Dr Robert Runcie, says there is still no evidence he is being held against his will.

January 28: Lambeth Palace receives assurances from Druze leaders in Beirut that Waite is "safe and continuing his discussions." But there is still no message from Waite. In Tehran, the Speaker of the Iranian parliament, Aliz Akhbar Hashemi Hojatokislam Rafsanjani, offers to do all he can to help.

January 29: Agence France Presse news agency and a Lebanese militia chiegtain, Assem Kanso, report sittings of Waite in eastern Lebanon.

Iran claims heavy Iraqi casualties

IRAN said its Revolutionary Guards killed or wounded 2,700 Iraqis in three "limited operations" at the weekend east of Iraq's second city, Basra, Agencies report.

The fighting, in which both sides are claiming successes, was reported as Iran started 10 days of celebrations marking the eighth anniversary of the Islamic revolution.

Iraq said its aircraft had attacked six Iranian towns and cities in retaliation for Iranian raids on civilian targets, including a missile strike on Baghdad. It said its troops crushed Iranian "pockets" six miles south-east of Basra.

Baghdad also reported an air strike on a vessel in the northern Gulf, which is believed to be the Iranian tanker, Khark 3.

Iran launched its offensive towards Basra on January 9 from the Iranian border village of Shalamcheh.

Quoting a communique on the latest battle reports, Tehran Radio said Iranian forces had advanced along the road from Shalamcheh to Basra and overrun the artillery centre of Iraq's 11th Division.

Iranian forces report having reached within six miles of Basra. Iran says the recent fighting has occurred in an area between 16 and 20 square miles wide, half of which is palm groves and the rest marshes and dry ground.

Bonn set to stop radioactive milk

BY PETER BRUCE IN BONN

THE West German Government is likely to move this week to stop the planned export of 3,000 tonnes of radioactive powdered milk to Third World customers —possibly Angola or Egypt.

The milk, produced in Bavaria after the Chernobyl nuclear reactor accident, measures 5,836 bequerel per kilogramme and is lying in 100 rail cars at Bremen harbour and a further 50 in Cologne, from where it was due to be shipped by barge to Rotterdam.

Authorities in Bremen and Cologne are keen to see the milk moved quickly out of their jurisdiction but the exporter, and the Bavarian government. say it cannot be returned to the town where it was made.

Lopex Export, which bought the milk, has asked the Bavarian authorities for permission to export it as animal feed which, according to European Community rules, can contain only 1,850 bequerel per kilo.

Police became involved at the weekend as a row developed about whether the milk would be processed into animal feed before being exported. The owner of a Bremen warehouse where the load was due to be stocked said his instructions were merely to store it and then ship it.

Yesterday, however, Mr Walter Wallmann, the federal environment minister, told a newspaper that he would be holding talks this week with all the people concerned, to find a safe way to dispose of the load. "This to-ing and fro-ing has got to stop," he said.

It appears the Government might have to buy the milk from Lopex Export as a form of compensation. But environmentalists were asking angry questions last night as one of the railway trucks containing contaminated milk went missing.

Trade unions scorn Chirac attempt to mend fences

BY DAVID HOUSEGO IN PARIS

FRENCH trades unions have reacted sceptically to the Government's proposals to reinforce collective bargaining and negotiations with labour as part of its shift to giving more priority to social issues.

The proposals were announced by Mr Jacques Chirac, the Prime Minister, last week in an effort to mend his fences with the unions after the recent strikes and boost the popularity of his conservative administration.

The leading unions have, however, taken them as an electoral ploy and accuse the Prime Minister of seeking their blessing for policies already decided rather than real negotiation. Mr Chirac announced last week that he would put before the Parliament new legislation on industrial training, apprenticeship schemes and the long-term unemployed.

He is also to bring back to the National Assembly the law on more flexible working hours which was rejected by the Constitutional Council on procedural grounds and also disputed by the unions.

Most sharply critical of the union leaders has been Mr Edmond Maire, the secretary of the pro-Socialist CFDT union.

Mr Maire accused the Government of "unleashing an avalanche" of legislation for electoral reasons and said "the state wants to consult us on what it has decided."

The pro-Communist CGT union, which has not been received by Mr Chirac since he became Prime Minister, predictably rejected his offer of dialogue as "indecent."

The sceptical union reaction comes at the beginning of a week that is likely to prove difficult for the Government on the labour front. Negotiations over salaries with the country's 4.5m public employees resume today with the unions still insisting on a safeguard clause in any agreement that would provide guarantees against a loss of purchasing power through inflation being higher than expected.

Six month US steel strike ends

THE United Steelworkers (USW) union yesterday ratified a labour agreement with USX Corporation, ending a six-month strike against the nation's largest steel producer, Reuter reports from Pittsburgh.

"We have improved the job security of our members and that was our primary objective in this round of negotiations," said Mr James McGeehan, who headed the union's negotiating team, after workers approved the pact by a 19,621-to-4,045 vote.

USX has said it will phase its plants back into production as it rebuilds orders. The company is expected to begin calling back some employees immediately to get some facilities ready to make shipments for delivery in the year's second quarter, the industry's busiest three months.

The USX strike had left 25 facilities idle in nine states, accounting for 17 per cent of the raw steelmaking capacity

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Legal Notice

IN THE MATTER OF
THE INSOLVENCY ACT 1986
AND IN THE MATTER OF
GROVEBELL INVESTMENTS PLC

NOTICE IS HEREBY GIVEN, pursuant to Section 98 of the Insolvency Act, 1986, that a Meeting of the Creditors of the above-named Company will be held at 33-34 Chancery Lane, London WC2A 1EW, on the eleventh day of February 1987, at 2.45 in the afternoon, for the purposes mentioned in sections 99 and 100 of the Insolvency Act 1986, i.e.:

1. The nomination of Liquidator.
2. The appointment of a Liquidation Committee.

Until the day before the holding of the meeting, the following insolvency practitioner will furnish creditors of the company free of charge with such information concerning the company's affairs as they may reasonably require.

C. MORRIS, FCA,
Touche Ross & Co.,
33-34 Chancery Lane,
London WC2A 1EW.

Dated this 21st day of January 1987.

By Order of the Board,
K. J. GARDNER,
Secretary.

Tamils claim 200 civilians killed by commandos

BY MERVYN DE SILVA IN COLOMBO

TENSION was rising in Sri Lanka last night as Tamil spokesmen claimed police commandos had killed more than 200 civilians, while the Government insisted a much smaller number, mainly guerrillas, were killed.

The opposing claims follow a four-day operation by police commandos of the special task force in the island's ethnically-mixed Eastern Province. During the last four years more than 5,000 people have been killed as rebels battle for a separate homeland for the minority Tamil people in the Eastern and Northern Provinces.

Tamil spokesmen for the citizens' committee in Batticaloa, the eastern provincial capital, said at least 200 civilians, mainly Tamils, were killed. The Government has dismissed this as a "wild allegation," saying 23 Tamil guerrillas and four civilians died in the battles, together with 13 task force commandos.

An American witness said that he saw at least 50 employees shot dead by the forces.

The "cordon-and-search" operation in a 25 square mile area is a task force move against bases of the Tamil Liberation Tigers (LTTE), the largest of the five main Tamil separatist guerrilla groups.

The special task force claimed it captured the main LTTE base in Kokkadichcholai, six miles south west of Batticaloa, after fierce fighting. The base had a field hospital, a "kangaroo" court house, an ammunition dump, a radio transmitting station and a training camp, they said.

At the last round of talks with the Indian mediating team, the Government agreed to consider a proposal to detach the Sinhalese-dominated area from the eastern province to permit a "linkage" between the Tamil north and the east.

But the "offer," which India regarded as a major advance, was suddenly withdrawn, according to Mr Rajiv Gandhi, the Indian Prime Minister. The Government says that the Muslim leaders of the province are opposed to such a redrawing of boundaries in any devolution plan that the Tamils will accept.

Sri Lankan Opposition leader Mr Anura Bandaranaike recently warned the Government that the special task force was driving the Muslims into the hands of separatist Tamils, and forcing Muslim youths to take up arms.

It is known that a small Muslim youth group has formed a militia named Party of God, which is pro-Iranian, Mr Bandaranaike said

Talks on India-Pakistan border tension continue

BY JOHN ELLIOTT IN NEW DELHI

WEEKEND talks in New Delhi between India and Pakistan aimed at defusing tension on their joint border are to continue today.

Both have put forward what an official spokesman last night described as concrete proposals for defusing the tension.

These are assumed to include plans for gradual withdrawal of troops from the border areas.

Problems grew rapidly 10 days ago after India moved extra troops into its troubled northern state of Punjab where they may be needed to quell growing Sikh violence.

The Indian troops have also been moved into positions ready for major peace-time manoeuvres. This prompted Pakistan to keep its troops near the border after their own manoeuvres.

The task facing senior diplomats and defence chiefs involved in the talks is to find a formula which will enable India to take precautions in the Punjab, and carry out its exercises in the next few weeks, without further escalation in tension.

Corpses of Swapo fighters 'paraded through towns'

BY JIM JONES IN JOHANNESBURG

GOVERNMENT troops in Namibia have paraded the corpses of insurgents of the South West African Peoples Organisation (Swapo) through towns in the northern part of the disputed teritory, local newspapers have reported.

The Namibian, an independent Windhoek newspaper, has published photographs showing corpses tied to the sides and fronts of armoured personnel carriers of the South West Africa Territory Force (SWAFT), and claims that they corroborate allegations of similar incidents said to have taken place last year.

Yesterday the Sunday Star, a Johannesburg newspaper, reported Major Fanie Krige of the SWAFT saying that parading corpses was definitely not army policy. It also reported the Rt Rev James Kauluma, Namibia's Anglican Archbishop, as saying he had received a number of reports of bodies being paraded through northern Namibian towns.

The SWATF confirms that corpses have been transported from combat zones tied to vehicles, but military spokesmen say that this is possibly the only way that bodies needed for positive identification could be carried.

● Six people, four of them children, were injured in a grenade attack on the house of a Soweto city councillor on Saturday evening, the South African Government's Bureau for Information reports.

UK bid for India deal to be led by GEC

By John Elliott in New Delhi

GEC, the British engineering and electronics group, has been chosen by the UK Government in preference to Northern Engineering Industries (NEI) to lead a consortium of British companies which hopes to build the second stage of the 2,000MW Rihand coal-fired power station in northern India at a cost of around £300m ($454m).

The decision, which is a major blow for NEI's international reputation as a power station contractor, was taken by British Cabinet ministers at the end of last week after a heated battle between the two companies. It was confirmed over the weekend by the Department of Trade and Industry.

NEI led a consortium on a £230m contract, awarded in 1982, for the first 1,000MW stage of the power station but has run into major managerial and construction problems which have resulted in it falling nine months, and maybe as much at 12 to 15 months, behind schedule.

Despite improvements during the past year, NEI's right automatically to be the lead contractor on the proposed second stage has been queried by India's National Thermal Power Corporation, as well as by the UK's Department of Trade of Industry.

NEI said yesterday that it was disappointed at not being chosen as the lead contractor in the UK bid and acknowledged that this probably reflected delays in the first stage of the contract.

However, the company said it would be working closely with GEC and added that "the important thing is that the contract comes to Britain." Mr Mike Abrahams, commercial director at GEC Turbine Generators, declined to comment.

About half of the cost of the contract is expected to be covered by British aid if the UK companies are awarded the work. The British Government was asked by India's Ministry of Power two months ago to put forward its financial and project management proposals so that negotiations could begin soon.

Because of the history of the first contract, in which the UK Government has been closely involved, this meant that the DTI had to take the unusual step of deciding which company to put in the lead.

Meanwhile, companies from other countries, including Siemens of West Germany, are believed to have indicated to the Indian Goverment that they were prepared to bid. The Indian Government is adept at playing rival tenderers off against each other. So the UK decided it had to put forward a sufficiently credible package to try to prevent other countries disrupting what was envisaged as a bilateral Indo-UK negotiated deal.

GEC, which was beaten by NEI when the British Government chose the lead contractor on the first stage, argued forcefully that it had more international contract management experience than NEI and should take over the second stage.

Both companies put in formal bids to the DTI in London last month, after which civil servants are believed to have failed to persuade them to form some sort of joint team which would bring GEC experience in alongside NEI. Now NEI has been asked by the DTI to co-operate with GEC in preparing for the second stage

Michael Donne sets the scene for crucial talks aimed at averting an airliner trade war

US flies into flak over Airbus protests

THE OPENING shots will be fired this week in what may become a commercial airliner trade policy war between the US and western Europe. The threat stems from US allegations of unfair pricing by Airbus Industrie, the European airliner manufacturing group.

This argument has been rumbling for some time, with the US becoming increasingly incensed at the success of Airbus, especially with its latest model, the 150-seat A-320.

The member companies of the European aerospace industry, primarily in the UK, France and West Germany, are reacting calmly to the talks in London, Paris and Bonn between US trade representatives and west European governments. They believe there is no basis for the US allegations.

So far, these have been spelt out only in general terms. Detailed complaints are expected to be unveiled at the talks.

The US allegation is primarily that the Airbus consortium is heavily subsidised by its participating governments which enables it to sell its aircraft, especially the A-320, at below cost in world markets. Such subsidies would be a contravention of international agreements on airliner selling prices and to the detriment of Boeing and McDonnell Douglas of the US.

The A-320 has logged firm orders and options for 437 aircraft before its maiden flight, now expected in the spring. This is the biggest total achieved by any airliner in advance of first flight.

Denying the US charge, the Europeans point out that the A-320's success stems from the fact that it will be the only 150-seater airliner in the market. In addition, its nearest competitors, the Boeing 737-300 and 737-400, and the MD-80 series from McDonnell Douglas, have not been able to match its advanced technology.

Airbus says that, even now, neither Boeing nor McDonnell Douglas has come up with a direct advanced technology competitor. Boeing, moreover, has still not settled the design of its proposed 150-seater, the 7J7.

Airbus believes that, had the 7J7 been available, there would have been a major fight for orders with the A-320.

Nevertheless, the Boeing 737 series and McDonnell Douglas MD-80 series, although not direct competitors, have still done extremely well.

The Boeing 737 series is already well on the way to becoming the world's most popular and successful jet (after the tri-jet 727, now out of production), with sales of more than 1,700.

The Europeans also argue that the dominance of the US in world markets, including western Europe, remains great.

The European group has achieved firm sales of 647 aircraft since its establishment in the mid-1960s, out of a total world jet fleet at the end of 1986 of more than 6,837. The vast majority are US-built.

Only now, with the proposed Airbus A-340, a four-engine, long-range jet, is they are competition for the US long-range jets.

Last year, the flow of orders to Airbus Industrie, although a record at 170, was outweighed by Boeing's 335 and the McDonnell Douglas total of 228.

Airbus also points out that its own success has aided and will continued to aid the US industry.

At least one-third of the value of all Airbuses sold accrues to the US industry, through the General Electric and Pratt & Whitney engines and associated systems on those aircraft (A300s, A-310s and A-320s). Rolls-Royce of the UK so far has no share of those markets.

In some cases, because of the preference of customers for other equipment, such as avionics, seats and galleys, the percentage of some Airbus sales going to the US is over 30 per cent.

This week's talks are likely to be tough, although the Europeans do not want an aviation trade war.

THE EUROPEAN aircraft industry should pay no attention to "gesticulations" from its competitors, said Mr Jacques Douffiagues, the French Transport Minister, George Graham reports from Paris.

But Mr Douffiagues, speaking on Friday, said that there should be a serious debate without animosity between American and European governments on the methods used to finance the launch of new airliners.

US officials are due to visit Europe this week to protest against the measures used to promote sales of the next generation European Airbus A-340, which competes with the MD-11 jet to be produced by McDonnell Douglas of the US.

"At the moment that Airbus is getting ready to develop its programme, it is normal for its competitors to try to cement their advantages," Mr Douffiagues said. "But we must not let ourselves be impressed by other people's gesticulations. Threats are part of the competition that precedes the launch of new projects."

The French Minister said he hoped the go-ahead for the four-engined A-340 programme could be announced in time for the Le Bourget air show later this year.

Quality control in Soviet Union 'is showing results'

BY PATRICK COCKBURN IN MOSCOW

THE QUALITY of ouput from 1,500 Soviet enterprises, subject to a new system of state quality control from the beginning of this year, is starting to improve, say Soviet officials.

Inspectors from the state quality organisation (Gospriomka) now examine 50 per cent of industrial output and 60 per cent of machine tool production, according to Mr Boris Sokolov, deputy chairman of the State Committee for Standards, which supervises the new scheme.

He said that 80 to 90 per cent of output was accepted immediately but that in some cases enterprises could not achieve their planned targets because of low quality production. The new organisation has also taken over the function of certifying goods for export, a job previously done by the Ministry of Foreign Trade.

The aim of the organisation is to improve rapidly the quality of products through "a state acceptance system," although it is unclear what happens when machine tools are obsolete or otherwise inadequate to meet the standards set. At a Volgograd footwear plant 70 per cent of output was rejected by inspectors.

State quality control has also badly hit a company manufacturing small buses in the Baltic republic of Latvia, where products were found to be below standard. After the principal manager resigned the Automotive Industry Ministry and the central committee of the Latvian Communist Party had the idea, almost unprecedented in the Soviet Union, of advertising the vacant post.

● AP reports from Washington: President Reagan yesterday nominated career diplomat Mr Jack Matlock, a veteran Soviet affairs expert, as US ambassador to the Soviet Union.

Mr Matlock, 57, whose nomination must be confirmed by the Senate, would replace Mr Arthur Hartman, who stepped down as envoy to Moscow after serving more than five years.

Mr Matlock is a US foreign-service officer who, until returning to the State Department late last year, was the chief Soviet specialist on the National Security Council.

He said in a telephone interview after his nomination that he was pleased to be selected for the post and that his main goal would be to "maintain contact with the Soviets" and keep the US informed about developments in the Soviet Union.

Asked to assess the current state of relations, Mr Matlock said: "They could be better and they could be worse." On the positive side, he said: "There is no crisis in the relationship . . . we're not on the brink of a major confrontation."

Indonesia unveils plan to ease foreign debt

By John Murray Brown in Jakarta

INDONESIA WILL not reschedule its foreign debt but will look to new concessionary finance at "softer terms and with a longer grace period" to ease its debt burden, Mr Radius Prawiro, Finance Minister, told parliament at the weekend.

Foreign debt stands at $30bn (£19.8bn), 80 per cent of which is soft or medium-term finance.

Mr Prawiro said the debt service ratio — debt repayment as a percentage of exports of goods and services — was near to 40 per cent.

This is largely the result of shrinking oil and gas sales, Indonesia's main export, and sluggish demand for primary commodities.

Debt repayments officially projected at $4.6bn in 1987-8 have also increased with the appreciation of the Japanese yen.

Indonesia's central bank is reportedly discussing a possible loan from the International Monetary Fund, under the Compensatory Fund Facility, normally reserved for non-oil commodity producers suffering deteriorating terms of trade.

Economists in Jakarta say the Government may resort to a standby facility with the fund to reduce the current account deficit, officially put at $4.06bn last year compared with $1.95bn in 1985.

The central bank has drawn down the official reserves by $500m for last year which, if commercial bank reserves are included, stand at $10.1bn.

The Government can expect up to $3.8bn this year from donor countries in export credits, soft loans and bilateral aid.

Western bankers predict however, that the Government will seek new commercial credits in the first quarter and as much as $1bn in the year, much the same as 1986.

● The Duke of Kent arrived in Indonesia yesterday at the start of a British trade drive in South-east Asia, Reuter reports from Jakarta.

The Duke, vice-chairman of the British Overseas Trade Board, will also visit Thailand.

Yugoslavia Nordic debt

Yugoslavia announced it had reached agreement with Nordic creditors on refinancing part of its debt repayable between May 1986 and March 1988, Reuter writes from Belgrade. The announcement by the official Tanjug news agency gave no details of the sums involved. Yugoslavia owes $19.5bn to western creditors. It said Yugoslavia was granted easy credit terms for refinancing the debt.

Conservative ideology had little to do with the floating of NTT, Simon Holberton reports

The power politics of Japanese privatisation

TO THE outsider next week's listing in Tokyo of stock in Nippon Telegraph and Telephone (NTT) appears another triumph for Mr Yasuhiro Nakasone, Japan's Prime Minister and unJapanese apostle of free enterprise and small government.

Mr Nakasone is the closest the Japanese have come in 40 years to a "conviction politician" who espouses a fairly coherent nationalism and economic conservatism.

Mr Nakasone has arrested the growth in Japanese Government outlays and he is opposed to Government in business enterprises. Salt and Tobacco, the railways and the telephone company all have been or soon will be, privatised to make way for "private sector vitality," as they call it in Japan.

In both tendencies — the ideological and the practical — it comforts some to see shades of President Reagan and Mrs Thatcher. Japan, the protected and government-directed super-state of Asia, is it seems becoming more like us. But reality is not so simple.

Professor Chalmers Johnson, a political scientist at the University of California, Berkeley, in an essay on the "telecom wars" of 1981-85 (soon to be published), lays bare the process which led to the NTT float and listing.

Where most of his breed politely ignore the role of money in Japanese politics, Prof Johnson writes about it openly and perceptively. Where many assume a Westminster and Whitehall blueprint at their Tokyo equivalents of Nagatacho and Kasumigaseki, Prof Johnson realises that to do so is not only false but misleading, because they obscure the way Japanese politicians, bureaucrats and businessmen influence the process of policymaking.

He is critical of US policymakers and officials negotiating with the Japanese for the best outcome for US telecommunications companies. With a bilateral trade deficit of $1.5bn in 1985, the Reagan Administration was ken to see that Japan not only lived up to its commitment to buy more US products, but that the price of entry into the telecommunications business after deregulation was not fraught with hidden problems.

"The Americans were usually ineffective because they typically did not know what was going on within the Japanese Government and made their protests only to the Foreign Ministry or the Prime Minister," he says.

As he shows, the floating of NTT—the first tranche of 12.5 per cent of its stock raised $14.5bn — has very little to do with conservative ideology and the aversion to government activity in areas where private interests ought to prevail.

The NTT privatisation was about a power struggle between one powerful government ministry attempting to increase its power and another ministry recognising that it could grab power. A group of senior Liberal Democratic Party (LDP) politicians also stood to benefit, financially as well as in enhanced status.

The two ministries were International Trade and Industry (Miti), which had administrative control over the electronics and computer industries, and the Posts and Telecommunications (MPT) which loosely regulated NTT, which in turn dominated telecommunications in Japan. The politicians were primarily from the Tanaka faction of the LDP and they cut a deal which opened up a whole new source of campaign contributions.

"The Telecom wars began in the autumn of 1981, when Miti successfully blocked an MPT-initiated bill that would have

Nakasone: private sector vitality

given MPT strong regulatory powers over computer-connected telecommunications circuits," Prof Johnson writes.

"They heated up during 1982 in the second value-added network campaign, spread to new fronts during 1983 over the issues of providing legal protection for the writers of computer programmes and the building of regional infrastructures for the 'informationised' society of the future (called 'teletopias' by Miti and 'new media communites' by MPT), and during 1984 and 1985 became a general conflagration with at least seven different battles going on simultaneously."

The most important of these was the privatisation of NTT. The company had been dominated by a group of technicians who wanted it to remain a state monopoly. Supporting them were the NTT cartel of major electronics manufacturers, led by NEC, and a group of senior politicians who specialised in MPT's jurisdiction known individually and collectively as the postal *zoku*.

A *zoku* is an LDP politician who has been re-elected at least five times. He has specialised in a particular area of government administration and is in many cases more experienced in policy work than the bureaucrats he meets daily. Before any legislation goes before the Diet (parliament) it must first pass the scrutiny of the relevant committee of the LDP and it is there, in the LDP's policy affairs research council, that the bureaucrat has to argue his case before the *zoku*.

The postal *zoku* — the most senior of whom are members of the Tanaka faction — had concerned themselves with the post office, the distribution of local radio frequencies, and the issue of telephone charges — important areas of public policy for a largely rural-based party.

In favour of privatisation were the members of the administrative reform council who recommended it, and Miti, which thought (erroneously) that by privatising NTT the MPT would be weakened.

Miti seriously underestimated MPT. The postal ministry had defined the ground rules with its initial draft law in February 1984. It made NTT private, put it under the supervision of the ministry, and made every attempt to keep out foreigners.

Although Miti was able to chip away at MPT's bill it was never able to alter its premise that MPT had responsibility for the administration of telecommunications. As Prof Johnson explains, the deadlock between those who wanted NTT's privatisation and those who did not was worked out by a group of talented bureaucrats.

Along with a loyal deputy and probably the second most powerful politician in telecommunications policy, Mr Shin Kanemaru, the top postal *zoku*, Mr Kakuei Tanaka, came up with the basis of the law to privatise NTT. The monopoly would be privatised on April 1, 1985, two-thirds of the stock would be offered for sale over a five year period and one third would be kept by the Government. Dividends on the government-owned shares would fund a new government-owned telecommunications research facility.

The NTT family also had to be placated. No other industry has as many contributors of funds to the LDP in the top 10 as the electrical manufacturers. They were pleased with the new government research facility and with the prohibition on manufacturing—which ended any possibility of the private NTT becoming a serious competitor.

The process by which NTT became a private company is typical of policymaking in Japan. As Prof Johnson points out in his concluding remarks, for the businessman and government official wanting to affect the outcome of policy, it is critical to know players in both the bureaucracy and the LDP. "It is high time," he says "that foreign nations that are dissatisfied with Japanese governmental policies begin to match their rhetoric with some expertise."

Chalmers Johnson, "Miti, MPT and the telecom wars: how Japan makes policy for high technology," in "Creating advantage: American and Japanese strategies for adjusting to change in a new world economy." Working Paper No. 21 of the Berkeley Roundtable on the International Economy. Ed. John Zyssman. Forthcoming.

Italy announces proposals to ease exchange controls

BY ALAN FRIEDMAN IN MILAN

DRAFT LEGISLATION designed to liberalise Italy's system of exchange controls was made public at the weekend by Mr Rino Formica, Minister of Foreign Trade.

The detailed legislative draft, an Italian response to EEC directives, contains 25 articles and proposes a variety of liberalisation measures related in the first instance to tourism and trade. It does not, however, break ground in the near-term on the export of currency for investment.

Controls on such capital outflows might be relaxed at a later stage, under the proposals.

Mr Formica described the proposal as "an open draft" and invited comments and critiques from universities, companies and individuals. The law which is not expected to reach a final stage until later in the year is unlikely to take effect before 1988.

The draft legislation allows absolute freedom for the export of capital for tourism, travel, personal study or health reasons.

It also permits the free flow of capital for import-export transactions, although it places limitations on the purchase of gold and foreign exchange.

● The port of Genoa was paralysed again yesterday as dock workers violated last week's agreement between the port authority, national trade union leaders, and the dock workers' own association. The accord, reducing the number of workers handling container ships, was reached last Tuesday, and lasted only 48 hours before workers began striking again.

Saipem to lay pipeline in Nigeria

By Our Milan Correspondent

SAIPEM, the state-owned Italian pipe-laying and drilling company, has won a L400bn ($309m) contract from Nigeria to build and install a 380 km-long gas pipeline.

The contract, awarded by NNPC, the Nigerian state energy concern, calls for completion of the gas pipeline network by the middle of next year.

Joining Saipem as a partner in the venture will be Snamprogetti, a sister company also controlled by ENI, the Italian state energy holding group.

The turnkey contract, calls for Saipem and Snamprogretti, to design the system supply materials and build the pipeline which will have a 36-inch diameter.

Poland to take part in Siberian gas pipe venture

BY CHRISTOPHER BOBINSKI IN WARSAW

POLAND is to take part in a joint Comecon project to build a 4,650m km natural gas pipeline from Jamburg in north-western Siberia to the Soviet Union's western border.

The contract, the total cost of which is put at some Zl 300bn (£1bn), is the largest ever undertaken by Poland abroad.

Polish supplies of machinery, equipment and labour for the pipeline and a steel mill at Magnitogorsk will be repaid by annual deliveries of 2.5bn cu m of natural gas (worth Zl 25.6bn at the 1985 price) for 20 years starting in 1989.

Polish press reports fail to specify how the price of Soviet gas deliveries is to be calculated.

The value of the four-year project can be compared with the Pl1,300bn Poland is planning to spend on fuel and energy projects at home between 1986 and 1990.

Poland will be building gas installations, a 360 km-long stretch of the pipeline itself and will be delivering machinery and working on the Magnitokorsk steel mill under the terms of the contract.

Poland currently imports some 6bn cu m of natural gas a year from the Soviet Union.

● Poland devalued the zloty by 19.5 per cent against the US dollar and the Soviet rouble from yesterday to make exports more competitive, the official PAP news agency said, Reuter reports from Warsaw. A television news report said the measure had also been sought by the International Monetary Fund and World Bank.

US contacts to increase

BY OUR WARSAW CORRESPONDENT

POLAND and the US are to increase economic and political contacts following a three-day visit to Warsaw by Mr John Whitehead, the US Deputy Under-Secretary of State.

But decisions on lifting the ban on credit to Poland, and restoring Warsaw's most favoured nation trade status — removed after the banning of Solidarity five years ago — are still under review.

"I can't predict what our decision will be," Mr Whitehead said on Saturday just before he left after eight hours of talks with Polish officials, including almost three hours with General Wojciech Jaruzelski and a meeting with Mr Lech Walesa and other Solidarity leaders.

Mr Whitehead heard Mr Walesa as well as Cardinal Jozef Glemp, the Polish Primate, argue against continued imposition of sanctions.

The next step is for Mr Jozef Czyrek, the top Polish party official responsible for foreign relations, to go to the US in early March, while talks on a new scientific and technical co-operation agreement, broken off in 1985 will start at around the same time.

In the spring, a working group will meet to prepare an autumn meeting of the Polish-American economic council, and an official American exhibit will return to the Poznan Trade Fair in June.

China crackdown worries HK

BY KEVIN HAMLIN IN HONG KONG

SIR DAVID WILSON, who becomes governor of Hong Kong in April, will be warned of growing concern in the territory over China's crackdown on "bourgeois liberalism" during discussions with Sir David Akers-Jones, the acting governor, that begin in London today.

The acting governor is expected to tell Sir David, names the next governor early last month following Sir Edward Youde's sudden death in December, that recent events in China have heightened local concern that Britain will attempt to duck a thorough discussion of political reforms due this year because of fears of mainland disapproval.

A Green Paper on political reforms, intended to pave the way for wider Legislative Council elections in 1988, is due to be released for discussion in May. The debate is expected to be heated.

China has previously warned that Hong Kong should not tamper with its political structure until after Basic Law drafting is complete. The Basic Law is a mini-constitution for a territory's future after 1997, when sovereignty returns to China. It is currently being drafted, mainly by pro-Peking interests. The first draft will be released in 1988.

It is feared that the crackdown in China, following student demonstrations for democracy at the turn of the year, could result in an even harder line on politics in the territory.

Hong Kong has no directly elected legislators but indirect elections were introduced for a portion of Legislative Council members for the first time in 1985.

Both main Australian parties take comfort from polls

BY CHRIS SHERWELL IN SYDNEY

AUSTRALIA'S ruling Labor Party and the opposition Liberal Party both drew encouragement yesterday from the results of two important state-level by-elections held in Sydney constituencies on Saturday.

Although Labor retained both seats, it suffered a substantial loss of support. But the votes went to a diverse group of independent candidates as well as the Liberals.

With a federal election due before April 1988, all eyes were on the outcome in New South Wales, not least because one of the contests was in territory covered by the Federal Constituency represented by Mr Paul Keating, the Government's controversial Treasurer.

The polls were also seen as a test for Mr Barrie Unsworth, the premier of New South Wales who took over the government and party leadership last year. The reputation of both has been tarnished by scandals and corruption allegations.

The by-elections sprang from the resignations of Labor members of the state parliament who faced court actions.

A strong showing was necessary for the Liberals because the party is divided over how to deal with hard-line conservative forces threatening to take over the leading opposition role in Australia.

In a contest which was complicated by the decision of former Labor figures to stand for election, parochial issues turned out to be as important as the state of the economy.

The Liberals claimed yesterday that Labor's loss of support in its own strongholds pointed to a loss of power at the federal level, provided the conservative vote was not split.

However, as the lost votes drifted to independent candidates, it is clear that the Liberals under Mr John Howard, their national leader, have yet to prove they can take on Labor.

Mr Bob Hawke, the Prime Minister, who is now visiting the Middle East, yesterday welcomed the victory for Labor. Mr Unsworth said it vindicated his campaign strategy, which had involved most of the state cabinet knocking on neighbourhood doors appealing for votes.

SHIPPING REPORT

Big oil stocks leave tankers idle

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

SURPLUS TONNAGE in the world tanker market put a lid on activity last week, with brokers reporting that they are expecting subdued trading conditions for some time to come.

The root of the problem, according to E. A. Gibson, the London shipbrokers, is that there are more than adequate supplies of oil waiting to be drawn down from stock at present.

In addition, independent owners were last week facing strong competition for business from the major oil companies, according to shipbrokers Galbraith's. Several of the big oil groups had tied up vessels in the 80,000-ton to very large carrier range of vessels for relatively long periods of time, the company added.

Overall, the worst problems appeared to be in the market for vessels in excess of 200,000 tons, where some 4m tons of capacity were reported to be idle in the Middle East Gulf, with a further 7m tons anticipated to be coming free over the forthcoming month. Rates in West Africa were also depressed, with a 133,000-tonner being chartered at Worldscale 45, and Mediterranean business was also becalmed.

According to Gibson, volume was strongest in the Caribbean and on the eastern coast of Mexico, where average 60,000-ton parcels to the US were obtaining rates of Worldscale 105.

World Economic Indicators

UNEMPLOYMENT

		Dec. 86	Nov. 86	Oct. 86	Dec. 85
US	000's	7,949.0	8,243.0	8,222.0	8,184.0
	%	6.7	6.9	6.9	7.0
UK	000's	3,229.0	3,217.0	3,237.0	3,273.0
	%	11.7	11.7	11.7	11.8
		Nov. 86	Oct. 86	Sept. 86	Nov. 85
W. Germany	000's	2,067.7	2,026.3	2,046.1	2,210.7
	%	7.6	7.4	7.5	8.1
France	000's	2,673.4	2,668.4	2,624.3	2,495.1
	%	11.5	11.4	11.2	10.7
Italy	000's	3,222.4	3,217.2	3,155.5	3,052.4
	%	14.0	14.0	13.7	13.3
Netherlands	000's	691.9	696.0	704.0	741.8
	%	12.1	12.1	12.3	12.9
Belgium	000's	525.0	540.0	532.4	541.1
	%	12.8	13.1	12.9	13.2
		Oct. 86	Sept. 86	Aug. 86	Oct. 85
Japan	000's	1,610.0	1,670.0	1,690.0	1,590.0
	%	2.76	2.81	2.88	2.76

Source (except US, UK, Japan): Eurostat

UK NEWS

Outsider may follow Milne as BBC chief

BY RAYMOND SNODDY

MR DAVID DIMBLEBY, the freelance television journalist and local newspaper proprietor, is emerging as a strong candidate for the director generalship of the BBC to succeed Mr Alasdair Milne, who resigned last week.

Mr Marmaduke Hussey, chairman of the BBC and his vice chairman, Lord Barnett, appear determined to find a candidate from outside the existing management hierarchy of the BBC.

Apart from experience as a television journalist with the BBC, Mr Dimbleby who is 49, also has management experience as managing director of Dimbleby and Sons, the West London newspaper publishers. The company was in the vanguard of early battles over the introduction of new newspaper technology.

Mr Dimbleby, who is considered right of centre, has been critical of present standards of BBC journalism.

Mr Dimbleby, whose programmes have included Yesterday's Men, on Labour politicians in opposition and more recently This Week Next Week could not be reached last night to confirm whether or not he intended to apply for the most influential job in British broadcasting.

It also emerged yesterday that Mr Peter Jay, former British Ambassador in Washington, and now publisher Mr Robert Maxwell's chief of staff, had lunch at Broadcasting House, the BBC headquarters, before Christmas with Mr Hussey and Lord Barnett. It is not clear whether Mr Jay was being consulted on the process of change, or might in the end be a candidate himself.

There now seems little doubt that the removal of Mr Milne, which had the unanimous approval of the governors, was planned for many weeks and was probably only delayed by the attack on the BBC over alleged bias launched by Mr Norman Tebbit, the chairman of the Conservative Party.

The change at the top may lead to a radical restructuring of the corporation once the appointment is made.

Advertisements for the post appeared in yesterday's Sunday newspapers.

Union stands by for phones peace offer

BY CHARLES LEADBEATER, LABOUR STAFF

A TWO-YEAR agreement covering pay and productivity is under consideration by negotiators from British Telecom (BT) and the National Communications Union (NCU) as a possible solution to the week-long strike by 110,000 telephone engineers.

The engineers' pay negotiators will report to the NCU's engineering executive today after the two sides held more informal talks yesterday. The executive is likely to sanction further negotiations with BT.

However, the strike, which follows the breakdown of talks over the 1986 pay award, looks set to continue for some time. Union officials predict it will take several days to draw up an outline settlement for the executive to consider.

It is understood the negotiators are considering dealing with the productivity measures BT has proposed as a part of the 1987 pay award, which is due on July 1. This may allow the 1986 pay award to be made without productivity strings, a key demand of the union.

The changes to working practices could be spread between the 1986 and 1987 settlements apparently to weaken the link between pay and productivity. Talks have ranged from considering modifications of the final offer BT made before the strike, to starting once again in drawing up a revised package.

It is believed the two sides are also discussing a framework agreement which would outline the timetable for further negotiations.

Some union leaders believe an agreed framework, containing a clear commitment from BT that it would improve its pay offer, and a similar commitment from the union to agree productivity measures, might provide the basis for a return to work. It is likely the union will ballot its members on whether to return to work.

Leaders of the NCU's 30,000-strong clerical group, which is much closer to agreement, will today start formal negotiations with the company. Union leaders say a settlement to the clerical workers' pay claim is unlikely to have much impact on the talks covering the engineers.

Nissan agrees 2-year pay deal

BY DAVID BRINDLE

NISSAN HAS agreed a two-year pay deal, worth between 6 per cent and 7.5 per cent this year and a further 5.5 per cent in 1988, for its 500 employees at its Washington, car plant, in North East England.

The deal, which is likely to influence pay negotiations today at Peugeot-Talbot, shows the continued popularity of long-term settlements among employers seeking a period of stability for development programmes.

Nissan has a single-union agreement with the Amalgamated Engineering Union, which claims 25-per-cent membership among the workforce as a whole and nearer 30 per cent among production workers.

Chunnel chairman's tenure in doubt

By Andrew Taylor

LORD PENNOCK'S future as British joint chairman of the Channel tunnel consortium appears increasingly in doubt following worries at the Bank of England and in Whitehall that the project is still not proceeding smoothly enough.

Mr Robin Leigh-Pemberton, governor of the Bank of England, is understood to have wanted Sir Nigel Broackes, chairman of Trafalgar House, the construction, shipping property and hotels, group, to replace Lord Pennock.

This now seems unlikely, and there is speculation that Sir Nigel, currently reconsidering his role in Eurotunnel, could resign from the consortium.

Senior officials at the Bank and in Government are understood to be concerned that Eurotunnel has not made sufficient headway in establishing the management and organisation it needs to run a major international transport system.

The are particularly worried that detailed decisions on design and operating equipment and procedures are becoming bogged down and that more impetus is needed to sort out these areas.

Officials are also concerned that the French participants in the project, with more experience in running this kind of venture, could swamp the project unless the British side can organise itself better.

There are worries whether Lord Pennock, a main board director of merchant bank Morgan Grenfell, will be able to devote sufficient time to the Channel tunnel project, given the problems at the bank in the wake of the Guinness affair.

Senior managers at Eurotunnel say Lord Pennock might be prepared to stand down if he could be shown that the project would benefit from a change at the top and if a worthwhile successor could be found.

The chances that this person could be Sir Nigel Broackes looked unlikely last night. Sir Nigel has never publicly said that he wanted to be chairman, although he is known to be dissatisfied with his role at Eurotunnel.

Other British contractors among the founding shareholders of Eurotunnel are also uneasy about Sir Nigel's presence in the consortium. A further complication is the position of Trafalgar House as a possible contractor to the project.

Sir Nigel joined the Eurotunnel board under the prompting of the Bank of England last October after the consortium has struggled to raise £206m in an international share issue.

Either way, the decision over whether Lord Pennock is to remain or stand down, seems likely to be resolved fairly swiftly if the project is not to be damaged by further speculation.

US toy groups 'responsible for volatile market'

By David Churchill

A WARNING that the UK toy market, which accounted for £870m in consumer spending last year, is becoming increasingly volatile comes today from the Euromonitor market research company in a new report on the toys and games industry.

Euromonitor suggests that the reason for the volatile state of the market is aggressive US toy companies "piling into the UK with mammoth advertising budgets."

The US toy company Mattel emerges in the Euromonitor report as the largest advertiser for toys in 1985, spending some £7.7m. The most heavily advertised toys were all Mattel brands – Barbie dolls (with £2.2m worth of advertising,) Rainbow Brite (£1.87m), and Masters of the Universe (£1.5m).

Hasbro-Bradley, another US toy company, spent some £6.4m on toy advertising in 1985.

Euromonitor points out that such large advertising budgets have not increased the overall demand for toys but merely stimulated sales of promoted toys at the expense of others.

"Retail sales in 1985 were just under 20 per cent higher than in 1982, which means that in real terms the market has grown by less than 1 per cent a year," says Euromonitor.

Euromonitor's warning comes in the middle of the major UK toy trade exhibition taking place today at the Earl's Court exhibition centre in West London. Some 450 companies from 15 countries are showing the latest toys likely to be on offer next Christmas.

Euromonitor's report suggests that traditional toys, such as soft toys and model railways, have been coming back into popularity after the trend towards electronic toys in the early 1980s.

"Given the tendency of booming sectors to be periodically brought back to earth, however, it seems unlikely that soft toys can continue with their breakneck progress, while the recovery of the train set market will probably also slow," it suggests.

Euromonitor suggests the "best bet for recovery is scientific and educational toys."

**The Toys and Games Report, Euromonitor Publications, 87–88, Turnmill Street, London, EC1; £235.*

Peter Riddell watches a golden relaunch for the Liberals and SDP

Alliance trumpets election fanfare

ON TO THE STAGE they trooped like so many bashful Miss World contestants. Some waved, some blushed and a few were even wearing the new gold colours.

The 25-strong SDP/Liberal Alliance election team was being paraded to present campaign themes – and to provide material for this Wednesday's party broadcast. The event, formally a rally but in practice a relaunch, was all slick presentation.

The 2,500 faithful who crammed into the Barbican Centre on Saturday were in an applauding, not argumentative, mood. They had paid £7 each to hear 24 speeches in four hours about the length of one of Gladstone's orations.

The audience – and many were dressed in suit and ties as if waiting for the evening's concert – were very much from the middle class core of both parties. There were few tee-shirts, beards or sandals. Hence, it was difficult to guess who was a Liberal or a Social Democrat.

Everything was carefully stage managed. The new theme – Purcell's Trumpet Tune in D – resounded throughout the hall and was a decided improvement on The Chariots of Fire theme familiar from by-elections.

Each segment was preceded by a short film, and then the spokesman gave his presentation, with figures to provide hostages to fortune. Everyone duly used the slogan "The time has come" just as every minister included the words "The next move forward" at the Conservative conference last October.

There was no room for participation, only clapping. At the end former Liberal MP Mr John Pardoe, now an Alliance strategist, got the whole audience to their feet waving their gold brochures rather like the waving gladiolis at the end of Dame Edna Everage's act.

The most enthusiastic receptions were for the stars, notably Mr Roy Jenkins who got two standing ovations. This must have been a heartening boost for his candidacy for the Chancellorship of Oxford University, especially as quite a few of those clapping are voters there.

Of the others, Mr Ian Wrigglesworth and Mr Michael Meadowcroft impressed with discussions of unemployment and the inner cities, respectively.

If the medium was almost everything, the message was less striking. But some key campaign themes emerged. Mr Steel stressed: "Let no Tory or socialist think they divide us before, during or after the election." This means no separate deals in a hung parliament. Secondly, he argued: "It is realistically impossible that the Labour Party can win a majority of seats at the next election. Labour are losers."

Both leaders emphasised the importance of proportional representation (PR). Dr Owen said the Alliance would publish bills by the election giving details for PR for Westminister, the European Parliament, regional assemblies and local council chambers.

"We will not be fobbed off ... or be bought off by sometime-never discussions. We want guaranteed legislative steps to make everyone's vote count."

Mr Jenkins said the Alliance needed to offer a positive approach. Copying the terminology of monetarist economies, he urged the need to raise "the level of rational expectation of the British people."

Any underlying tensions only came out in television interviews, Liberal MP Mr Simon Hughes argued on the BBC's "This Week Next Week programme that he could not be part of an administration which decided to replace Polaris. While he accepted the current deterrent if arms talks were not successful, he would argue against any replacement.

On the familiar range of post-election options, Mr Steel underlined his dislike of Mrs Thatcher on TV-AM saying: "I cannot see circumstances in which it would be possible to work with her in a coalition." However, he added "but not never."

Dr Owen then said he thought Mr Steel had "gone too far." While conceding that he did not think it would be easy to carry on a coalition government with her as head, Dr Owen said: "Once we get into the business of telling other parties who is to be leader, that goes down a dangerous course." And such courses were studiously avoided over the weekend.

Government will not mobilise vote on rights

BY PETER RIDDELL, POLITICAL EDITOR

THE BRITISH Government will not mobilise its 130-strong payroll vote of ministers and parliamentary private secretaries to vote down the private member's bill to incorporate the European Convention of Human Rights into British law despite official opposition to the measure.

Supporters of the bill, who include senior figures from all parties, have been assured by the Government that there will be no special summons to ministers when it comes up for Second Reading in the House of Commons this Friday.

The measure amounts to a bill of rights and sets out specific rights of freedom of association and expression, to privacy and to a fair trial. The measure will mean that human rights issues at present heard at the European Court in Strasbourg will in future initially be heard in British courts.

Sir Patrick Mayhew, the Solicitor General, will indicate that the Government does not believe this is the right road to follow in view of dangers of politicising judges. There have, however, been differences within the Government. While the Home Office is also opposed, Lord Hailsham, the Lord Chancellor, has in the past been a supporter of a bill of rights.

The existence of a free vote does not ensure that the bill will pass given the opposition of the Government and a sizable number of Tory and Labour MPs.

The bill is sponsored, however, by Sir Edward Gardner, a lawyer and senior Tory backbencher, and is backed by former Home Secretary Mr Leon Brittan, Mr Geoffrey Rippon and Mr Roy Jenkins, as well as other senior backbenchers and a large number of voluntary bodies.

The key, and still uncertain, question will be whether the supporters of the bill can muster the 100 MPs needed to secure a closure and end the debate.

However, the bill's sponsors believe their campaign will have been reinforced by the controversy over the police use of wide-ranging search warrants in relation to the Zircon spy satellite television programme and others in the "Secret Society" series.

Addressing a meeting of the Social Democratic Party (SDP) in London yesterday, Dr David Owen, the party leader, said the affair underlined the need to put "the bill of rights on to the statute book."

Labour MP makes break with party

By Peter Riddell

MR JOHN RYMAN, the MP for Blyth Valley, made an expected break with the opposition Labour Party over the weekend and will stand as an independent at the next election. But he will not force a by-election unless the general election is long delayed.

His decision makes the outcome in the Northumberland seat uncertain since Labour was only 3,243 votes ahead of the SDP/Alliance candidate Mrs Rosemary Brownlow, at the 1983 election.

Mr Ryman, an MP for over 12 years, said he had resigned because of "extreme left-wing and Militant infiltration and domination of the Blyth Valley Party and the refusal, despite overwhelming evidence, of the national executive to take any effective action against it."

He accused the national leadership of being "too feeble, weak and indecisive to deal with the problem."

His resignation follows the decision last Wednesday by Labour's national executive committee to reject Mr Ryman's allegations of infiltration following investigations by a senior party official. The committee also endorsed the local party's choice of Mr Ronnie Campbell as Mr Ryman's successor.

There will be little surprise at Westminister at Ryman's decision.

There will, however, be relief that he does not intend to force an immediate by-election. Mr Ryman said, "if Mrs Thatcher makes it clear there will not be a general election for some time I shall cause a by-election. If it is obvious there will be an early election I shall not do that, but I shall stand as an independent when that election comes."

UK NEWS

Daiwa plans to start London bank operation

BY ERIC SHORT

DAIWA SECURITIES, Japan's second-largest brokerage firm with a market capitalisation of £12bn, is to start a banking operation in London. Its subsidiary, Daiwa Europe Finance, recently became a licensed deposit-taker.

Last year, Japan's largest securities group Nomura started banking operations in the UK.

Mr Yoshitoki Chino, chairman of Daiwa Securities, said: "I am of the view that London is the leading international financial centre and Daiwa was determined to play a full and important role in the City by creating this new banking facility.

Other Japanese securities firms are expected to become licensed deposit takers and to open up banking operations as part of a reciprocal arrangement for the Japanese securities markets to open up to British firms.

Some UK financial institutions, such as National Westminster Bank and Baring Brothers, have obtained securities licences in Toyko while others such as Barclays are still waiting.

Mr Geoffrey Taylor, who recently retired as group chief executive of Midland Bank, will be chairman of the new Daiwa banking company, and Mr Colin Monk, a managing director of Hill Samuel, will become chief executive.

Daiwa Europe Finance has been actively involved in the Euromarkets for the past two decades. Their new step will, according to Mr Monk, be "a significant extension of its services in the major capital and money markets of the world.

The banking operation is expected to start operations in two or three months' time, operating from Basinghall Street in the City of London. Its activities will be in the wholesale banking sector – corporate and government lending, but in *due course it is likely to make house purchase* finance available through other financial institutions.

BRITAIN'S INTERNATIONAL TELEPHONE RATES LOWEST IN SEVEN-NATION SURVEY

Local phone charges 'unnecessarily high'

BY DAVID THOMAS

THE LIBERALISATION of telecommunications has led to high local telephone charges, but low trunk and international charges, in the UK when compared with other leading industrialised countries, according to a new survey.

The survey by National Utility Services, a group which analyses utility costs and prices, looked at telephone charges in seven countries. It found that the UK had the highest local telephone charges, but the lowest trunk and international rates, of the seven.

Mr Andrew Johns of National Utility Services, said: "British Telecom (BT) has made the cost of local calls unnecessarily high to make up the reduction of rates in areas where they are under growing pressure from Mercury."

Last year, according to the survey, BT increased its local charges by 25 per cent on average. Most of the other countries in the survey had no price changes for local calls last year, though Italy increased them by 3.2 per cent and West Germany cut them by 3.6 per cent.

BT cut its trunk rates by 14.6 per cent last year, the survey says, a reduction bettered in the US (down 27.2 per cent) also because of liberalisation. France cut its trunk rates by 1.7 per cent; Italy increased them by 3.5 per cent; and the rest stood still.

A slight cut of 0.5 per cent was made by BT in its international rates last year, according to the survey. West Germany halved its international charges, France cut them by a third and Italy increased them by 1.6 per cent, with the rest making no change.

The UK also had the cheapest rates for international and local telexes, the survey found. Italy charged the most for international telexes, despite a 9.4 per cent cut last year. The US, which registered a 45.7 per cent increase was the dearest country for local telexes.

Thomson to make Whitechapel computers

BY OUR INDUSTRIAL STAFF

WHITECHAPEL Workstations, a London-based company which is one of Europe's leaders in the emerging business of scientific workstations, is to have its machines made in France by Thomson, the large French electronics group.

This is the first time that Thomson *has manufactured a British* product in France. Whitechapel hopes the agreement will help it take 5 per cent of the French market, where it has negligible sales at present.

US companies dominate the market for scientific workstations, which are powerful personal computers used by engineers, scientists and other professionals for complex graphics and calculations.

Whitechapel and a German company, PCS Cadmus, are the only European companies with a significant share of the European markets, each holding about 2 per cent. Thomson will be making Whitechapel's machines at Laval, in North West France, Whitechapel expects that Thomson will make about £2.5m of its products in the first year.

Mr Bob Haire, Whitechapel managing director, said the link with Thomson would make the machines more acceptable in France. He also hoped it would help boost sales in West Germany and other continental countries, where Whitechapel was discussing joint ventures with local software companies.

Whitechapel is also to receive an injection of capital from two venture capital funds, the Brussels-based Benevent Management and Guinness Mahon's Venture Founders.

UK NEWS

Twelfth year of Honeywell profits growth

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

HONEYWELL Information Systems of the UK, the British subsidiary of the US-based Honeywell computer and defence equipment group, achieved its twelfth successive year of profits growth in 1986.

Pre-tax profits jumped by 37 per cent to £23.7m from £17.3m, while turnover grew by 10 per cent to £177m from £161m. After-tax profits were up by a little over 60 per cent to £15.6m compared to £9.7m.

Employment in the group was stable during the year at 2,500, even though Honeywell has doubled output of its DPS 6 medium-range computer at its plant in Newhouse, Lanarkshire over the last 24 months. About 40 per cent of Newhouse's production was sold in the export market.

Honeywell is due to announce this month the formal partnership arrangements drawn up last year with Bull of France and NEC of Japan. The three companies already collaborate extensively, and Mr Brian Long, chairman of the UK concern, said yesterday that these links had been an important element in the group's growth last year.

Mr Long also brushed aside industry suggestions that the UK market had flattened out in 1987. Competition was strong, he said, but overall sales were still going up. Honeywell had been particularly helped by the addition to its range of the high-powered DPS 90 machine made by NEC – a mainframe computer which sells in the sector of the market where some manufacturers claim to have suffered their most serious setbacks.

Nuclear plants 'safe from fault'

BY PETER MARSH

BRITAIN'S NUCLEAR power stations are safe from a fault which has delayed the commissioning of two new reactors, according to the Central Electricity Generating Board (CEGB).

Unexplained wear in control rods at the advanced gas-cooled reactors under construction at Heysham near Blackpool and Torness in Scotland will delay commissioning of the plants by several months.

Caterpillar workers dig in

James Buxton assesses the mood of the employees' Scottish sit-in

BUT *for the fact that there are only* a handful of cars in the car park, the visitor to the Caterpillar earthmoving equipment plant at Uddingston, near Glasgow, might at first sight think it was business as usual.

A uniformed security guard checks your credentials, notes them in a book and issues a visitor's badge. Inside the Administration block there is a bustle of activity. But it is a bustle not of managers but of men in open-necked shirts and pullovers, members of the *workers' occupation committee* who have been in charge of the plant since that snowy day a fortnight ago when the earthmoving equipment company in the US announced that it was shutting the plant later this year.

Caterpillar also announced the closure of two US plants – at Davenport, Iowa, and Dallas, Oregon.

Even now there is still as much bewilderment as anger among the men in Uddingston at the decision to close their plant.

Only four months earlier the company had announced that it was investing £62.5m at Uddingston to streamline production and further raise efficiency. Uddingston was called "the plant with a future," and in the December 24 issue of the company newsletter Earthmover the Scottish facility was described as "being among the better performing plants" the company ran.

"They were professional, fair employers," says Mr John Brannan, the tough-looking chairman of the joint works committee who began the occupation immediately the company announced its plans. Since then there has been no contact with the plant's management, who are operating from a Glasgow hotel.

"I trusted them," says Mr Pat Brandon, a burly ex-miner who has worked at the plant for 15 years. On a walk round the vast, tidy 1.1m *square foot factory*, he points with pride to the new Italian and West German robots that were already being installed as part of the investment programme.

"The reorganisation of production methods might have cost a few jobs eventually, but natural wastage would have taken care of them. This was a well-run plant," he says.

"Now I'm 52 and if the plant doesn't reopen I'll never get another job. And even if Caterpillar does change its mind and keep the plant going. I'll never trust them again."

"We reckon the decision to shut the plant was politically motivated," says Mr John Gillen, a shop steward, in a conversation which is interrupted to allow the plant cleaners – working unpaid, like everyone else – to dust round the meeting room, and halted by a call from a TV station in Peoria, Illinois, where Caterpillar is based.

Like others he believes that the company, faced with losses and alarmed by flat demand forecasts, chose to shut a European plant because it would be politically difficult to concentrate all the closures in the US, where the axe has usually fallen in the past and where the two plants are to go along with Uddingston. This is in spite of the fact that the Scottish plant is economic and has wage costs that are only about a third of those in the US.

The occupation has the support of *more than 1,000 of the 1,200-strong* workforce. But it failed to win the participation of the plant's middle management and only four supervisors are taking part.

On each shift about 30 employees report for work, on a rota basis. Last week they assembled one D6H crawler tractor. It was painted pink – "any colour but yellow" – and was presented to Bob Geldof's Band Aid famine relief organisation.

The occupying workers are also beginning a programme of training different parts of the labour force to do each others' jobs. Forgetting any concept of demarcation, typists are being trained to drive tractors, and fitters to operate VDUs.

The move has impressed industrialists in Glasgow who recall that the preservation of demarcation lines was assured at the outset in the Upper Clyde Shipbuilders sit-in – the pioneer of this sort of protest – in 1971. However, the pace of training appears less than hectic.

Mr Gillen says: "The aim is to create a highly skilled, flexible workforce with interchangeable *skills* that would attract another employer, or from the basis of a workers' co-operative that could run the plant."

Mr Brannan, the leader of the occupation, says: "The first aim is to get Caterpillar to change its mind. The second aim is to find another solution for the plant."

He would like the Government, which was prepared to make grants to Caterpillar's investment plan, to direct the same funds to the workers themselves if some form of co-operative were *formed.*

Certainly Mr Malcolm Rifkind, the Scottish Secretary, who had made great play of the investment plan in recent months, has shown that he is no less furious with the decision of Caterpillar than the Uddington workforce.

But an icy encounter he had re*cently in London with Mr Peter Do*nis, the US president of caterpillar, produced no movement on the company side, although Mr Donis said he would report back to his board. *Since then there has been no board* meeting and none is expected this week.

From their Glasgow hotel the plant's management gave warning that the workers' plan to assemble a tractor and hand it over to Band Aid was "unlawful." The men did not have the right to use or dispose of property that did not belong to them, the company said.

There is enormous sympathy in Scotland for the cause of the Caterpillar workers. But what is happening seems to be a holding operation.

UK NEWS

Audit changes worry accountancy body

BY ANDREW TAYLOR

BRITAIN'S biggest professional accountancy body will this week seek to halt proposals which could radically change the way company auditors are allowed to operate.

A number of options suggesting other rules and regulatory systems for auditors were set out last August in a government consultative paper. The deadline for responses closes this week.

The Department of Trade consultative paper was in reply to the eighth in a series of EEC directives aimed at harmonising company law and procedures in the European Community.

It requires new legislation to be in place by January 1 next year although the new rules will not be brought into operation until January 1 1990.

The Institute of Chartered Accountants in England and Wales is the largest of the four professional accountancy bodies canvassed by the department to produce its conclusions on the consultative paper.

It fears that auditors may become caught up in the backwash of the Guinness affair which has heightened criticism of self-regulation of financial markets and raised questions about the independence of professionals providing advice and services to company clients.

Three key areas of controversy have been raised by the various options for change suggested.

One proposal is that auditors should be prohibited from providing other services, such as management consultancy, for companies for which they carry out an audit.

Another option might be to require company's to change regularly their auditors, say on a five-year cycle. The object of these two proposals would be to prevent companies from putting undue pressure on auditors by threatening to remove valuable contracts.

A third area of controversy is over the department's suggestions on how the profession might be regulated. These include the possibility of establishing a new regulatory body which would have similar powers to the Securities and Investments Board (SIB), which oversees financial markets in the City of London.

The institute and its three bodies, including the Chartered Association of Certified Accountants, argue that segregating audit and consultancy functions would do little to prevent audit failures and abuses. It would, they say, add considerably to company costs.

"Firms would no longer be able to utilise the experience and detailed knowledge of its business built up by its auditors over many years. Instead, it would have to look elsewhere for consultancy advice. Work would be duplicated, and costs would rise," says the institute.

The proposals would be particularly damaging to small businesses which relied on the expertise and experience of auditors to provide other forms of assistance and financial guidance.

The institute claims that compulsory rotation of auditors would also result in higher costs and could conceivably lead to a lowering of standards as auditors come towards the end of their five-year tenure.

Instead, it advocates the introduction of US-style audit committees for large companies. Independent non-executive directors on the committee would be able to interview auditors to ensure the integrity of an audit.

This arrangement, it says, would be less costly and more effective in identifying audit failures than the restrictive and more costly, options proposed by the department.

Auditors are generally united in their opposition to the proposals calling for segregation of business interests and rotation of auditors. There is less unanimity over alternative proposals for regulating the profession.

Work rotation opposed

BY ERIC SHORT

THREE LEADING accountancy firms – Coopers & Lybrand, Price Waterhouse and Arthur Andersen – say they are totally opposed to splitting audit work and the rotation of auditors, a view which is in line with the general attitude within the profession.

But the firms accepted that steps were needed to improve the quality and control of the framework within which auditors operated.

Coopers & Lybrand believed that the EEC Directive provides a good opporunity to review the professional service of the audit.

Price Waterhouse felt that the Department of Trade proposals were unlikely to enhance the integrity of financial reporting, or the effectiveness of auditing. This was a view echoed by the other firms.

All firms believed that strengthening of controls should be made through a combination of changes in the Companies Act and through the profession.

Gilts turnover trebled since the Big Bang

BY Janet Bush

TURNOVER IN UK Government bonds has nearly trebled since the deregulation of the market on October 27.

Figures compiled by the Stock Exchange using the daily returns sent by gilt-edged market makers to the Bank of England have just been made available in revised form. The previous series, posted on the Stock Exchange's TOPIC system had been inaccurate because of problems with double-counting.

The revised series shows that the daily average turnover of customer business between the 27 primary dealers, agency brokers and retail investors in the period since Big Bang has been about £1.6bn.

Added to this is average daily turnover in intra-professional business between market-makers through the inter-dealer broker (IDB) screen network of around £1.9bn. Before Big Bang, daily turnover averaged about £1.25bn, according to Bank of England estimates.

In the period from November 3 to January 23, turnover passing through IDB screens has almost always bettered retail business turnover. However, after a commanding lead in November, the gap has narrowed between the two branches of the business, so that turnover is split nearer 50/50.

The figures also show that volume has grown faster in medium and longer-dated gilts than in the short-dated sector.

The reason for this appears partly to be that commissions were negotiable in the shorts sector before Big Bang whereas there were fixed commissions on deals involving longer maturities. The growth in longer-dated turnover appears partly to reflect the abolition of fixed commissions on October 27.

BASE LENDING RATES

	%		%		%
ABN Bank	11	● Charterhouse Bank	11	● Morgan Grenfell	11
Adam & Company	11	Citibank NA	11	Mot Credit Corp. Ltd.	11
Allied Arab Bk Ltd.	11	Citibank Savings	¶12.45	Nat. Bk. of Kuwait	11
Allied Dunbar & Co.	11	City Merchants Bank	11	National Girobank	11
Allied Irish Bank	11	Clydesdale Bank	11	Nat Westminster	11
American Exp. Bk.	11	Comm. Bk. N. East	11	Northern Bank Ltd.	11
Amro Bank	11	Consolidated Cred.	11	Norwich Gen. Trust	11
Henry Ansbacher	11	Co-operative Bank	*11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Cyprus Popular Bk.	11	Provincial Trust Ltd.	12
Associates Cap Corp.	11	Duncan Lawrie	11	R. Raphael & Sons	11
Authority & Co Ltd.	11½	E. T. Trust	12	Roxburghe G'rantee	11½
Banco de Bilbao	11	Equator'l Tst. C'p plc	11	Royal Bk of Scotland	11
Bank Hapoalim	11	Exeter Trust Ltd.	11½	Royal Trust Bank	11
Bank Leumi (UK)	11	Financial & Gen. Sec.	11	Standard Chartered	11
Bank Credit & Comm.	11	First Nat. Fin. Corp.	11½	Trustee Savings Bk.	11
Bank of Cyprus	11	First Nat. Sec. Ltd.	11½	UDT Mortgage Exp.	¶12.25
Bank of Ireland	11	● Robert Fleming & Co	11	United Bk of Kuwait	11
Bank of India	11	Robert Fraser & Ptrs	12	United Mizrahi Bank	11
Bank of Scotland	11	Grindlays Bank	‡11	Westpac B'nking Corp	11
Banque Belge Ltd.	11	● Guinness Mahon	11	Whiteaway Laidlaw	11½
Barclays Bank	11	HFC Trust & Savings	11	Yorkshire Bank	11
Benchmark Tst Ltd	11	● Hambro Bank	11		
Beneficial Trust Ltd.	12	Heritable & Gen. Tst.	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shangh'	11		
CL Bank Nederland	11	Lloyds Bank	11		
Canada Permanent	11	Mase Westpac Ltd.	11		
Cayzer Ltd	11	Meghraj & Sons Ltd.	11		
Cedar Holdings	12	Midland Bank	11		

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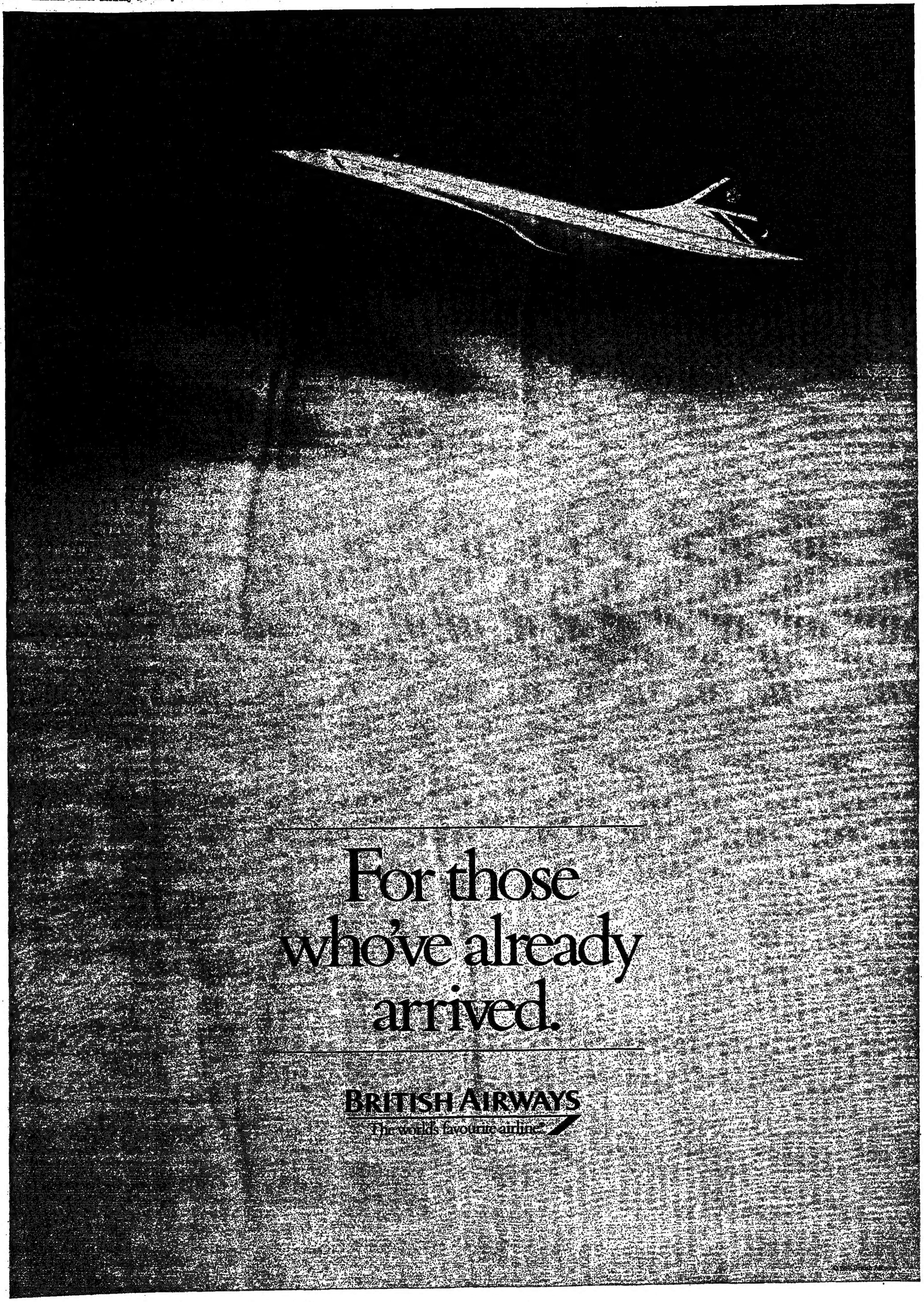
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Let's see the watchdog bite

JOHN PLENDER

THERE is something rather odd about the political debate on the scandals surrounding Guinness and its City advisers. One group of people, including most of the Opposition and a small but articulate band of City folk is calling for a statutory system of regulation for Britain's financial markets; they invoke the American model of the Securities and Exchange Commission. Another, spearheaded by the Department of Trade and Industry, busily declares that we have a statutory system already.

It looks like a classic case of yes, and yet again, no, minister. A little clarification might be in order.

This is easier said than done. Britain's system of securities regulation has always been a hotchpotch, combining a bizarre mixture of statutory regulation, self-regulation and, in some cases, no regulation at all. Yet the attempt to clean it up, through last year's Financial Services Act, has produced a percular hybrid.

At one end of the scale, for example, insider dealing has been a criminal offence since 1980 and looks like becoming more criminal. Some ministers would, one suspects, like to see insider dealers hung, drawn and quartered if they threatened Tory prospects in an election year.

Similarly, the Department of Trade inspectors, who left their visiting cards at Guinness's premises before Christmas, were acting under powers contained in the 1985 Companies Act.

In contrast, the Takeover Panel, set up in response to scandals in 1969, is a genuine self-regulatory body, the last remaining outpost in the City of the old club ethic. It looks set to stay that way, so long as the Government remains unwilling to accept that, when the best names in the City play fast and loose with the panel's rules, statutory backing is overdue.

The real oddity, however, is at the heart of the system sketched out in the Financial Services Act, which will lead to the Securities and Investments Board becoming the lynchpin of British securities regulation. And here we encounter the Schleswig-Holstein question of modern finance. Is the system of regulation set out in the act statutory, self-regulatory or just plain incomprehensible?

To answer the question we need to go back to the beginning of the decade, when the Government, in one of its more intelligent acts of privatisation, asked an outside legal authority, Professor Jim Gower, to review the system of investor protection.

In 1982 he proposed that the most effective of the various options for tightening up investor protection was to retain practitioner-based regulation in the City, but to make it subject to surveillance from a government department or agency, which would act as the licensing authority for a handful of self-regulatory organisations.

The Professor's blueprint was an elegant hybrid, intended to combine the flexibility of self-regulation with the muscle of statutory backing. It became less elegant as the City's traditional fear of any kind of government agency was impressed on ministerial ears.

In 198?, a group of City dignitaries, brought together by the Governor of the Bank of England, successfully argued that any new watchdog should be non-governmental. So we now have that constitutional oddity, the Securities and Investments Board, a private City board that will shortly exercise statutory powers, delegated by the Secretary of State for Trade, in monitoring self-regulatory organisations.

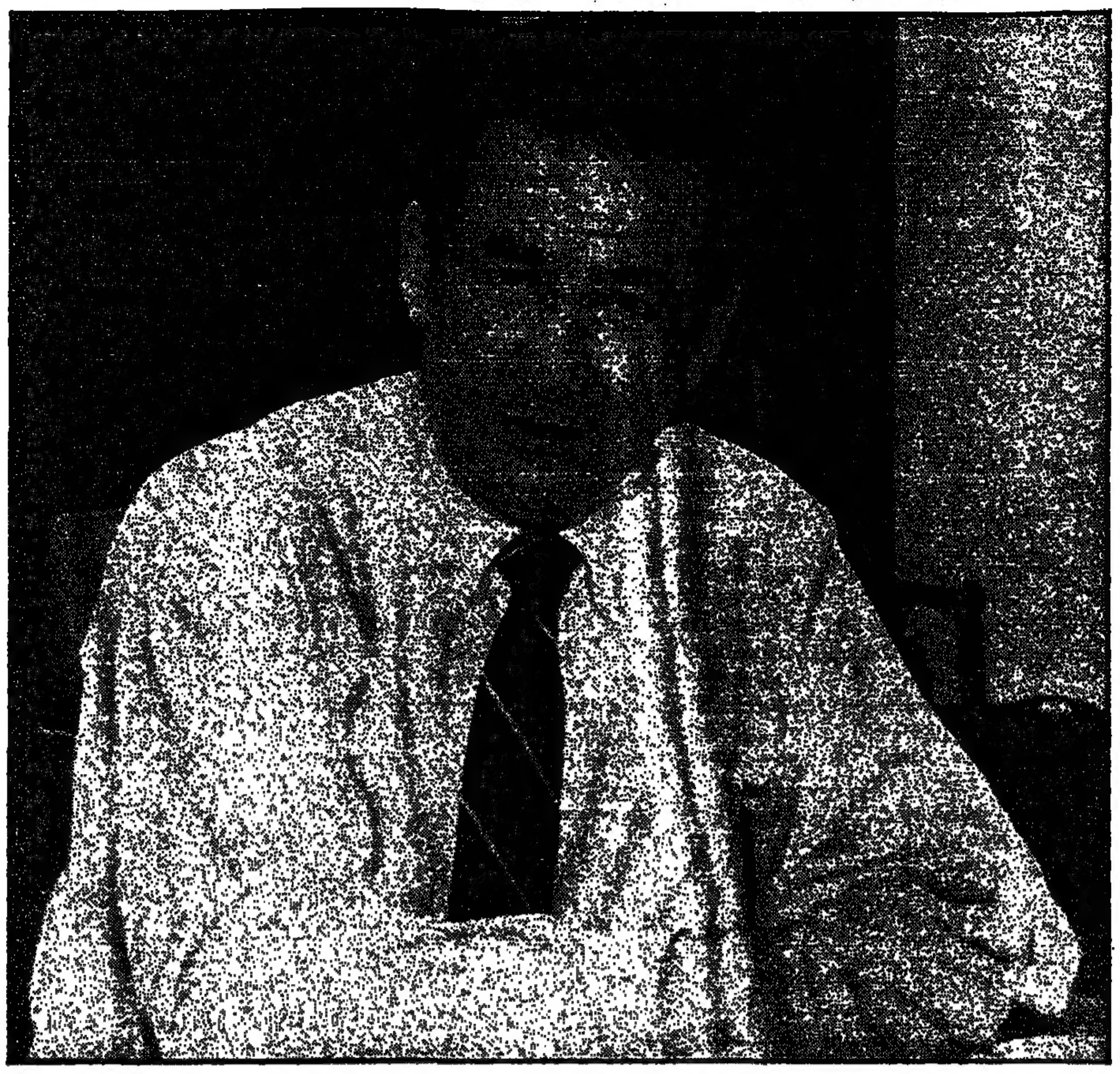
The self-regulation is, so to speak, conditional on good behaviour. It is part of a comprehensive statutory framework. And the peculiarity of the system is that it can be presented by politicians as being all things to all men, criminal or otherwise. When it had to be sold to the City, during the passage of the Bill, the non-statutory elements could be emphasised. Now that the Government is under pressure to crack down on City scandals, ministers can emphasise the statutory element. How robust a framework is it?

My view is that the original draft Bill was relatively tough, but not as tough as it needed to be to cope with the new, win-at-all-costs mentality in the markets. But thanks to some intelligent work by the Opposition and Tory backbenchers, the SIB is a potentially powerful watchdog. It is a private body with very unprivate powers of investigation and prosecution.

The argument about whether we would be better off with a Securities and Exchange Commission is thus increasingly academic. The real question is whether the SIB can bring to bear the kind of regulatory zeal that characterises the SEC at its best.

For what seems invariably to go wrong in Britain is that the authorities lack enthusiasm for the hunt. The Takeover Panel is an armchair adjudicator; the Stock Exchange impresses no one with its investigatory fervour; the Department of Trade has been singularly ineffective (and in the Guinness case had to be tipped off by the SEC before acting). Only when the politicians are up in arms do the watchdogs strain at the leash.

The test for the new chairman of the SIB, Sir Kenneth Berrill, is whether he can bring some American-style aggression to the regulation of markets that have been aggressively Americanised by the Big Bang. For, in the final analysis, the effectiveness of the system, self-regulatory or statutory, will always hinge on the quality of the regulators.



INTERVIEW

The Right stuff

Patrick Buchanan, President Reagan's Director of Communications, talks to Lionel Barber

THE REAGAN Administration has circled the wagons and from his windowless basement office in the White House, Patrick Joseph Buchanan *is returning fire.*

As President Ronald Reagan's director of communications, Mr Buchanan is in the front line of the battle for public opinion on the Iran arms scandal. It is a familiar slot. Only 13 years ago, Mr Buchanan, then a fresh-faced speech writer, found himself in the trenches with another embattled president, Richard Nixon.

But Pat Buchanan is more than a mere wordsmith with a flair for taking the offensive. Until his move to the White House, he was a successful syndicated columnist and TV personality earning more than $400,000 a year, and for the past two years he has been one of Mr Reagan's closest advisers.

He is a bare-knuckles conservative, an Irish-American from a family of nine who brings an almost religious fervour to his political thought and expression. He is proud to be labelled an ideologue, prouder still to be called the standard-bearer for the American New Right, the conservative increment which puts military might and moral strength at the top of its agenda.

It was only 10 days ago that Mr Buchanan, after much personal agonising, dropped out of contention for the Republican Party's presidential nomination in 1988. Experienced commentators reckoned he was a better bet than the conservative camp's other front-runners, Congressman Jack Kemp of New York and the Rev. Pat Robertson, the evangelist with his own TV talk show. Some even believed that about 10 per cent of the Republican Party's vote was there for Mr Buchanan's taking—enough to give him an important influence over the choice of the eventual candidate and the party platform.

By choosing not to run, Mr Buchanan has avoided splitting the Republican right — and left open his options for 1992. "It would have been like Pickett's charge," he says, referring to the final, bloody and ultimately futile Confederate effort to win the key Civil War battle of Gettysburg in 1863, "but the support was there."

What does he make of the present presidential crisis? What message does he have for those who watch fearfully as the scandal is dissected by congressional committees, the media and the inevitable Grand Jury?

First, a warning: "This is no Watergate," declares Mr Buchanan. He says, in effect, that there is no smoking gun and no cover-up of wrongdoing instigated by White House staff which goes right to the top. The President's claim that he knew nothing of the diversion of profits from arms sales to Iran to the Contra rebels in Nicaragua is a credible defence in Mr Buchanan's view.

Furthermore, the way the Reagan White House is handling *the Iran scandal is very different* from the way in which the Nixon presidency treated Watergate.

"The job of answering charges and allegations about the Iran affair — unlike the Nixon White House where we were all involved in that constantly—does not exist. I don't even read the details of these strange-named people involved in this Iran thing," he says.

Above all, the atmosphere in the US is different. "The Nixon thing really was a fight to the finish."

When the Senate Select Watergate Committee first turned its attention in early 1973 to the "dirty tricks" aspect of the affair, it was Mr Buchanan's testimony that broke its summer-long momentum.

He argued that most of the dirty tricks were standard political fare — and many veteran senators on the committee privately agreed. "It was a real blow-out and an unmitigated disaster," said one. "He made us look like fools."

There is little doubt that Mr Buchanan would dearly like to trade punches over Iran-gate, too. But more sober counsel has prevailed and Mr Reagan, while not offering an outright apology, has made every effort to appear to co-operate with Congress and the three-strong Tower Commission investigating the working of the National Security Council.

In Mr Buchanan's view there may be legitimate policy debate about the decision to sell arms to Iran. Equally, there is a legitimate probe into whether profits were diverted to the Contra rebels in defiance of a congressional ban. But this should not obscure what Mr Buchanan — the ideologue — views as the core issue: the power struggle between the left and right in the US which has erupted as a result of the current crisis.

In a recent column in the Washington Post (not cleared by the White House chief of staff, Mr Donald Regan), Mr Buchanan wrote: "What liberalism and the left have in mind is the second ruination of a Republican presidency."

The present struggle—by this definition—is between the conservatives and traditionalists led by Mr Ronald Reagan on one side and the bulk of Democrats, liberals in the bureaucracy, Washington press corps and the academic establishment on the other. "At bottom," says Mr Buchanan, "what you are now seeing is a battle for the American political agenda."

There is every suggestion then that the current crisis is the prologue to the 1988 campaign. But Mr Buchanan says it is also symptomatic of deep divisions in American society, going back to the mid-sixties when the nation was split over civil rights and the Vietnam war.

It is more than coincidence that Mr Buchanan's chronology of post-Second World War political conflict begins with the emergence of the conservatives as a dominant force within the Republican Party. For it was in 1964 that Senator Barry Goldwater of Arizona, aided by conservative activists, wrested control of the party from the Republican establishment.

In the event, it led to Mr Goldwater's own Pickett's Charge against President Lyndon Johnson. But the signal had gone out to the conservatives in the Republican Party: they, too, could be contenders. In the longer term, the way had been prepared for the successful presidential nomination of Ronald Reagan.

Once the White House had been stormed and a two-term presidency for Ronald Reagan had been achieved, one might think the conservatives in the Republican Party should pause for breath. Not a bit, for in Mr Buchanan's words: "The greatest vacuum in American politics is to the right of Ronald Reagan."

By this argument, Mr Reagan stands at the centre of the American political spectrum: a great conservative leader elected by massive popular support who has achieved much in his two terms, particularly to restore America's military pre-eminence. On the domestic front, Mr Reagan has left chunks of the conservative agenda untouched. Key items include anti-abortion legislation and the right — currently denied because of the separation of church and state — to hold prayers in schools.

Mr Buchanan believes there is ample scope for an ultra-conservative Republican to pick up votes from patriotic and *nationalistic elements in the* Democratic Party.

Allied with the international right from President Botha of South Africa to President Pinochet of Chile, he embodies a virulent anti-communism, a Manichean view of the world where military metaphors are mixed with imagery of god and the devil.

Speaking of Dr Martin Luther King, the black civil rights leader, Mr Buchanan once said, urging President Nixon not to visit his widow on the first anniversary of his assassination: ". . . it would outrage many, many people who believe Dr King was a fraud and perhaps a demagogue . . . others consider him the devil incarnate."

During the impassioned debate in Congress in 1985 over Mr Reagan's request for Contra aid, Mr Buchanan said: "With the vote on Contra aid, the Democrat Party will reveal whether it stands with Ronald Reagan and the Resistance—or Daniel Ortega and the Communists."

In the event, a vote the following year restored the flow of weapons to the Contras—a victory which Mr Buchanan counts among his greatest in the current Administration.

Therein lies the potency of Pat Buchanan. He has reinforced the President's own judgments in matters of foreign policy, notably in the unfailing support for anti-Marxist movements in Africa, Afghanistan and Central America. That, in turn, has encouraged the President to push, successfully, for his agenda on Capitol Hill.

The question is whether the Iran arms scandal and the new Democrat majority in Congress, have shifted the mood decisively to the President's disadvantage. Mr Buchanan believes the next two years *will be difficult* but not impossible, pointing out that Richard Nixon won 49 states in 1972 despite Democrat majorities in Congress and the agony of the Vietnam War.

"The President can be an extraordinarily effective leader in foreign policy, in defence policy, in using the bully pulpit, in vetoing legislation, in shaping the policy debate, in appointing people to the judiciary.

"This Repulican Party has succeeded to the degree it has because of one man — Ronald Reagan. If the Republican Party feels that it can discard ideas on the basis of its superior fund-raising ability, its superior personalities, and its superior technologies, then we will be back where we were . . . and we will belong there."

This, then, is the crusade. The question is where best Mr Buchanan can lead it. Inside the White House he has constantly felt confined, not least because of the tight leash of Mr Donald Regan. It is no secret that Mr Regan would have been happy to see Mr Buchanan leave the White House to join the Republican campaign. Now he has chosen not to run, his position is, at best, precarious.

He would like to have been offered the job of Nato Ambassador, but the State Department, remembering his bitter attacks over its South Africa policy, vetoed the appointment. "I liked the idea of appearing on 1,000 panels and 15 different TV stations arguing foreign policy," he says with a mischievous smile.

A more likely move is back into television where his instant punditry and adversarial style make him a natural for the small screen. And then there is always 1992.

PERSONAL FILE

1938 Born in Washington DC
1961 Honours degree in English at Georgetown University
1962 Joins St Louis Globe-Democrat newspaper
1966 Joins Richard Nixon's Presidential campaign
1969 White House speech writer for Richard Nixon and Spiro Agnew
1973 Gives evidence to Watergate Committee
1975 Becomes syndicated columnist and broadcaster
1985 Appointed President Reagan's White House communications chief

Writing civil liberties into law

JUSTINIAN

IF THE House of Commons on Friday gives a second reading to a private members bill providing for the incorporation into English Law of the European Convention on Human Rights, it will neither be handing over political power to the judges, nor will it create new civil rights.

Its enactment will be logically and in practice the ultimate step in Britain's commitment to human rights. It will also be a belated recognition that civil liberties need to be spelt out in a written form that will materially assist the courts in protecting the citizen more effectively, without the frustrated individuals having to trundle off to the European Commission on Human Rights at Strasbourg for the enforcement of his rights.

The Convention — framed originally by British lawyers at the Council of Europe in the late 1940s in the wake of the most devastating assault on human rights by modern civilisation — does no more than declare in the most general terms the fundamental rights and freedom of all civilised democracies. Many English judges freely acknowledge that those rights and freedoms accurately mirror the basic principle of English common law without, of course, the restricting factor of statutory interpretation.

Being thorough pragmatists, English judges are generally much happier working out solutions to individual disputes, which avoid conceptualising the problem; the results are often not very helpful or progressive. But less and less of our law is nowadays left exclusively to the judges to develop. There are few areas of law into which Parliament has not intruded, leaving little to the development of the common law. Hence, our courts are becoming increasingly the interpreters of statute law.

When, however, Parliament legislates, it does so with great *particularity, endeavouring* to cross every 't' and dot every 'i.' In this it is not always successful and courts have to search for the answer within the broad framework of the statute.

Judges have developed canons of statutory construction to determine what Parliament intended. By contrast, the European Convention of Human Rights is drafted in the most generalised terms, leaving it to the lawyers and judges to reflect the purpose of the particular right or freedom, with only the most generalised qualifications. English judges are unaccustomed to performing such a function. They are left either to their own devices, to develop the judge-made law of the common law, or they are mere technicians in statutory interpretation.

When the Treaty of Rome was incorporated in English law in 1973, it took a long time for the English legal profession and the judges to assimilate alien concepts, particularly where there was an underlying antipathy towards the European movement. But, gradually, the English courts have accustomed themselves to a new and even exciting dimension to legal developments. *The process of injection of European legal* methods has been entirely beneficial.

If civil liberties are to be properly protected, the English legal profession similarly needs to be educated in the jurisprudence of human rights. For two decades, a handful of advocates has attempted to invoke the European Convention on Human Rights in cases before the courts involving individual rights—with all too little success, if not actual rebuff. The convention is not part of English law, the judges intone, and is therefore inapplicable. But a younger generation of judges appears to be receptive to the potential task and ready for Parliament to provide the tools of incorporation. The climate of opinion has perceptibly changed.

In the last 10 years, the English judges have dramatically developed the branch of administrative law, conducting judicial reviews of government *decisions, supervising* and controlling administrative action of central and local government. In a country with a tradition of the rule of law, courts are precisely designed to ensure that government is under, and not out of reach of, the law. The European Convention on Human Rights can materially assist that judicial movement in protecting the citizens against government.

Several parliamentary attempts have been made in the recent past to bring Britain into line with its European partners. But they have been thwarted *by a combination of political* opposition and public apathy. While the former persists — the Prime Minister is known to be against incorporation — the public is much more aware of the issue and appears generally to favour the bill. Prompted by a handful of lawyers and other constitutionalists, largely through the efforts of the Constitution Reform Centre, an increasing number of organisations and individuals support incorporation.

At no time has there been such a favourable climate for such legislation. The bill's leading sponsor, Sir Edward Gardner, QC MP, is both a respected lawyer and an admired parliamentarian. As a very senior Conservative backbencher he will undoubtedly carry weight among his colleagues, who are free to vote as they wish. Other sponsors of the bill come from the opposition parties.

The time is ripe for the legislature to perform its traditional role of providing the *judiciary* with the *means* of protecting the citizen against an overpowerful executive — something parliament is too busy to do and incapable of doing by itself.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

After the glut

Seeking salvation from software

BY GUY DE JONQUIERES

BY IBM's past standards Gerald Ebker, president of the company's Federal Systems division, practises heresy. When IBM cannot provide suitable equipment for the large turnkey computer systems which his group supplies, he is prepared to go out and get it from other manufacturers.

As much as plugging odd gaps in IBM's range, the idea is to keep its development engineers on their toes by showing them where they are missing out. "Someone has said that I'm the corporate horsefly," Ebker says. "To be really constructive, we have to be a little bit critical, a little bit painful."

IBM's explicit acknowledgment that it may no longer have all the answers is part of a far-reaching reappraisal of traditional methods instituted by its chairman, John Akers, in response to the recent slide in its performance. It also reflects the company's eagerness to explore almost any opportunity which promises to get it growing again.

The company's senior executives accept that it has been slow to adapt to important shifts in the direction of the computer market and must now run hard to catch up. "We drifted away a little from the customer focus," says Victor Goldberg, vice president of marketing development.

To reposition itself, IBM must simultaneously tackle a complex array of challenges, some of which may be solved only after a lengthy process of trial and error. While applauding the company's willingness to grasp change, many industry analysts think it is still groping for a clear sense of direction. "They're throwing mud at the wall and seeing what sticks," says Carole Muratore of New York investment bank Morgan Stanley.

Until the most recent downturn in the US market, the main constraint on IBM's growth was its own manufacturing capacity. Rapid and continuing declines in computing power, averaging 20 per cent a year, seemed set to go on driving up demand for as far ahead as the eye could see.

Suddenly, however, the market began to show signs of glut, and frantic efforts by the industry to stimulate sluggish demand by cutting prices still further produced little response. Weaker US capital spending seems partly to blame. But IBM has concluded that the real culprit is the inability of computer users to get new uses out of their machines. If the company is right, the problem may take a long time to solve.

Inside IBM

"The inhibitor to growth is . . . not a lack of things to do," according to Ed Lucente, IBM's head of marketing. He says its major customers are keen to move ahead with all kinds of new computerisation plans but face three- to four-year delays in putting them into effect.

The backlog stems partly from large customers' inability to speed up development of the software needed to implement new kinds of application. It is compounded by a growing need to connect different types of computer equipment in networks. This also requires more software to enable the machines to exchange information freely.

No computer manufacturer yet has a complete solution to the networking challenge. But IBM has a particularly difficult problem because it has so many incompatible product lines. It is working hard on solutions but expects them to fall into place only gradually over the next few years.

IBM spends about $2bn a year on software, almost half its annual research and development budget and more than any other company in the industry. Its effort is heavily concentrated on operating systems — basic "housekeeping" instructions — for its larger computers. It has never bothered much with the applications software required to perform specific tasks such as payrolls or text processing because its large customers have written most such programmes for themselves.

However, the explosive growth of personal computers, some as powerful as IBM's biggest machines of a decade ago, has created a huge new market for specialised applications software. As computers become more commodity-like, manufacturers are also counting increasingly on software to differentiate their products in the market.

To meet the demand, IBM has little choice but to turn to small independent software houses. It recently forged an alliance with Hogan Systems, a US leader in banking software. But lining up further partners may not be easy in a fragmented and highly specialised cottage industry where competing computer companies, notably Digital Equipment and Hewlett-Packard, have already staked out turf.

"One of the major battles today is to build the strongest alliances with independent software houses," says Robert Cymbala, a computer industry expert with management consultants Booz Allen and Hamilton. "It will be a real dogfight."

To seek growth and added value, IBM is also expanding into electronic information services. John Steuri, assistant group executive for information services, says its goal is to become a "full-service provider, a one-stop shop."

Most of IBM's services revenue still comes from maintenance and operating software, highly profitable businesses which almost trebled in value between 1980 and 1985 to $11.5 bn or 23 per cent of its total turnover.

The company says its main interest in information services is as a means of stimulating hardware sales, which it expects to remain its core business for many years. One of its offerings is Info-Express, which offers direct access to IBM's own computer databases via a special IBM network and has attracted 700 customers.

But IBM has been less successful in its efforts to pioneer other services markets. Imnet, a joint venture in electronic financial information with Merrill-Lynch, the largest US brokerage house, was recently scrapped after poor results.

IBM also plans, along with the CBS broadcasting group and the Sears retailing chain, to launch Trintex, a home videotex service. "Whether Trintex will be successful in the marketplace, God alone knows—and he isn't telling us," says Paul Rizzo, IBM's vice chairman. "It's one of those risks that I think we have to take."

The main reason for Imnet's collapse appears not to have been its technology, but a failure to understand intimately enough the workings and needs of its intended market. In its way, it underlined a lesson which IBM is now trying to apply right across its operations. The challenge, as Goldberg puts it, is to "focus on the customer's problem, get inside the customer's head."

Many customers complain that IBM has been too busy trying to sell them hardware in the past to bother to understand their businesses. Now the company is going all out to learn, deploying several thousand experts with specialised knowledge of major industries and working more closely with large computer users in an effort to anticipate their future needs.

John Akers: instigator of a far-reaching re-appraisal

"There's been some improvement in the past year, but they still have a long way to go," says Kailafh Khanna, head of corporate information systems at American Express. Nick Simonds, director of management information systems at Chrysler, the US automotive group, believes IBM faces "a big uphill struggle" to grasp the full complexities of what makes its customers tick.

Nonetheless, IBM holds other strong cards—and is playing them as hard as it can. Though many of its products only offer the performance of a Ford, it is renowned for a Rolls-Royce standard of customer support.

Another factor which has helped make IBM the "safe" choice is its proprietary standards, which extend to three-quarters of the large computers in use today. "There are few companies in the world which set standards. Being on the IBM standard gives us flexibility," says Barry Kofar, a vice president of United Airlines, which IBM is supplying with an extensive travel agency management network.

However, IBM's position as de facto standard-maker is being challenged by customers' growing need to link different makes of computer together. Many computer suppliers and major users, including General Motors and Boeing, have also banded together to support industry-wide "open" standards which could supplant those of IBM. IBM subscribes to the movement but insists that "open" standards are less versatile than its own and have only limited applications.

Some in the industry think IBM will defend to the death its control over standards. Dave Martin, president of National Advanced Systems, a leading US supplier of plug-compatible computers, believes they are a key component in a long-term strategy by IBM to become the world's main supplier of fully-integrated information systems to large companies.

That scenarios of that kind can give smaller competitors nightmares testifies to the market power which even a troubled IBM still wields. But whatever grand ambitions the company may be harbouring, its first priority for the next few years is likely to be to attend to more pressing problems in its own backyard.

This article concludes this series. Previous articles appeared on January 19, 23 and 28.

Tripping up on telecoms

WHEN American Telephone and Telegraph was broken up and the US telecommunications industry deregulated in the early 1980s, many industry analysts foresaw a titanic struggle developing between AT & T and IBM for each other's traditional markets.

Struggling there certainly has been. But despite costly efforts to diversify, it has proved as difficult so far for IBM to make a profitable business out of telecommunications as for AT&T to master the art of selling computers.

IBM's first major telecommunications venture, a US business communications network called Satellite Business Systems (SBS) which began operating in 1981, never made money. Last year, IBM sold it to MCI, a US long-distance carrier, in exchange for 16 per cent of MCI's equity.

SBS was over-engineered and was hit by unexpectedly steep price falls and a glut of transmission capacity in the US long-distance market. IBM says it no longer wants to be involved in the transmission business and views MCI purely as a financial investment.

IBM's other big stake in telecommunications, Rolm, the third largest US supplier of private exchanges, is also going through a rough patch. Since IBM acquired full control of the company in 1984, a price war in the US market has plunged Rolm into losses which some analysts estimate at as much as $100m last year.

"We are all groping in the world of communications," says Paul Rizzo, IBM's vice chairman, who complains that progress in harnessing computing and communications technologies to produce innovative services is still moving at a snail's pace.

Still, IBM has not given up trying. It recently launched a personal computer-based system for managing data and voice networks and is wooing major customers with proposals to take over responsibility for setting up and running their major internal communications systems worldwide.

IBM insists that its main reason for being in telecommunications is to generate further equipment sales. "I get concerned that people think we have some great hidden agenda," says John Steuri of the company's information services group.

Nonetheless, suspicion about its plans abounds, particularly in Western Europe. Two years ago, the UK vetoed a plan by IBM to set up an advanced data network in partnership with British Telecom. A proposal by IBM to launch a similar service in France is worrying authorities there, who fear it could drain revenues away from the national telecommunications monopoly.

Industry experts are divided about IBM's longer-term goals. Some believe the logic of electronics technology and markets will lead it inexorably to extend its presence in telecommunications. Others think it has bitten off more than it can chew.

"IBM is learning a hard lesson," says Ken Philips, vice president for telecommunications policy at Citicorp, the large US bank holding company. "It's not clear where they're going to go or if they're going to become a force."

Business courses

Information management, Henley. March 30-April 1 and April 2-April 3. Fee: two days £350 plus VAT, three days £550 plus VAT, five days £860 plus VAT. Details from Fenella Galpin, Henley—The Management College, Greenlands, Henley on Thames, Oxon RG9 3AU. Tel: 0491 571454.

Putting people first — the new competitive strategy, London. February 16. Fee: non-members £172.50; members £143.75. Details from The Strategic Planning Society, 15 Belgrave Square, London SW1X 8PU. Tel: 01-235 0246.

Building a sales team, Maidenhead. April 12-14. Fee: Members of IM £265 plus VAT, non-members £310 plus VAT. Details from IM Marketing Training, Moor Hall, Cookham, Maidenhead, Berks. SL6 9QH. Tel: 06285 24922 ext 29.

Financial futures and options, London. March 16-18. Fee: non-members BFr 62,300; members (AMA/I) BFr 56,100. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19.11. Telex 21.917, 61.748. Telegrams Manacentre. Telefax 32/513.71.08.

Intellectual property, London. March 10-11. Fee: £460; after February 24 £483. Details from Miss J. K. Van Wycks, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Ave, London WC1A 2QT. Tel: 01-242 4111. Telex: 896827 (quote ref 1202).

How to become a top negotiator, Surrey. March 3-4. Fee: Members £276; non-members £322; discount rate £253. Details from IPS, Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NX. Tel: Stamford (0780) 56777. Telex: 32251.

Identifying change in European agriculture: the contribution of marketing research, Strasbourg. May 20-22. Fee: ESOMAR members SFr 945; non-members SFr 1,135. Details from ESOMAR Central Secretariat, J. J. Viottastraat 29, 1071 JP Amsterdam, The Netherlands. Tel: (020) 64.21.41. Telex: 18535 ESMAR NL.

Law for the buyer, London. March 24 and March 25. Fee: IPS members £210 plus VAT; non-members £240 plus VAT. £180 plus VAT per person for two delegates from the same organisation. Details from IPS, Easton House, Easton on the Hill, Stamford, Lincolnshire PE9 3NZ. Tel: Stamford (0780) 56777. Telex: 32251.

DIARY DATES

Trade fairs and exhibitions: UK

Current
British International Toy and Hobby Fair (01-701 7127) (until February 4) **Earls Court**

Current
International Spring Fair (Gift section 01-855 9201. Hardware section 0604 22023) (until February 5) **NEC, Birmingham**

February 3-4
Entrepreneurs' Exhibition (01-493 0000) **Royal Garden Hotel, W8**

February 10-11
Computers in Tax Exhibition (0732 364422) **Bloomsbury Crest**

February 10-12
Refrigeration and Air Conditioning Exhibition (01-688 7788) **Wembley Exhibition Hall**

February 12-15
Crufts Dog Show (01-493 7838) **Earls Court**

February 14-22
Boat, Caravan and Leisure Show (021-236 3366) **NEC, Birmingham**

February 15-17
International Automotive Parts and Accessories Trade Show (01-855 7777) **Olympia**

February 17-20
The Which Computer? Show (01-388 9871) **NEC, Birmingham**

February 22-24
London Pret Exhibition (01-385 1200); International Men's and Boys' Wear Exhibition (021-705 6707); Junior Fashion Fair International (01-636 1833) **All at Olympia**

February 25-26
Measurement and Test Exhibition — INSTRUMENTATION (0822 4671) **Harrogate**

February 27-28
Cash and Carry Fashion Fair (01-727 1929) **Kensington Town Hall**

Overseas

Current
Caravan, Camping, Car, Boat, Garden and Tourism and Leisure Exhibition (01-651 2191) (until February 8) **Hanover**

February 21-25
International Fair for Shopfitting, Advertising and Selling—EUROSHOP (01-493 3893) **Dusseldorf**

February 21-25
Spring Fair (01-734 0543) **Frankfurt**

February 25-March 3
International Fairs: Food; Materials Handling and Warehousing; Packaging and Printing (021-455 9600) **Brno**

March 8-11
Winter Sports Equipment Exhibition (01-439 3964) **Grenoble**

March 9-14
International Innovation Exhibition (01-439 3964) **Paris**

March 15-21
International Spring Fair (01-248 7013) **Leipzig**

March 25-29
International Spring Trade Fair (01-977 4551) **Vienna**

Business and Management Conferences

February 3-4
Crown Eagle Communications: Successful public relations (01-242 4111) **Holiday Inn, NW3**

February 3-5
INSEAD: Foreign currency options workshop (with BankAmerica Options Inc) (1)60.72.42.14) **Fontainbleau**

February 5-6
VentureCorp: Leveraged buy-outs in Europe (01-482 5397) **The Dorchester Hotel, W1**

February 6
The FT City seminar (01-621 1355) **Plaisterers Hall, EC2**

February 10
Longman Seminars: Film and television production — evaluation and management of risk (01-242 4111) **Barbican Centre, EC2**

February 17
Longman Seminars: Will drafting and inheritance tax (01-242 4111) **Barbican Centre, EC2**

February 17
Information for Energy Group: Oil price information (01-636 1004) **61 New Cavendish Street, W1**

February 17
Financial Times: The London Motor Conference—Manufacturing, Components and the Aftermarket (01-621 1355) **Marriott Hotel, W1**

February 17-18
Crown Eagle Communications: UK Government contracting (01-242 4111) **Selfridge Hotel, W1**

February 17-19
IRRG: The London insurance market—the way forward (01-236 2175) **The Royal Garden Hotel, W8**

February 18-19
Financial Times: Cable television and satellite broadcasting (01-621 1355) **Hotel Inter-Continental, W1**

February 18
CBI: Energy for business (Cardiff 32536) **Parkway Hotel, Cwmbran**

February 19
CBI: Look Nordic (01-379 7400) **Centre Point, WC1**

February 23
Longman Seminars: Process industries and the environment: risk and regulations (01-242 4111). **Glaziers' Hall, SE1**

February 24-26
Management Training Consultants: Successful managers in action (Leicester 27062) **Leicester**

February 24-26
Frost and Sullivan: Computer performance measurement applied to complex and shared disk environments (01-730 3438) **Carlton Tower W1**

February 26
Tolley Publishing Company: Acquiring a private company (01-686 9141) **Marriott Hotel, W1**

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

BOARD MEETINGS—
Finals:
Berkeley Govett
Securiguard
Warner Estate
Interims:
Anglo United
Textured Jersey

DIVIDEND & INTEREST PAYMENTS—
Amari 8pcPf 4.62pc
American Information Techn. Con. 187.5 cts.
Anglo American Cpn. of South Africa 6pcPfd 0.93064p
Atlantic Assets Tst. 5pcPf 1.75p
Bassett Foods 1.95p
Beecham 5.1p
Bellsouth 75 cts.
Booth Inds. 1p
[illegible] 4pcPf. 1.4p
Continuous Stationery 0.5p
Edinburgh American Assets Tst. 4½pcPf 1.575p
Ferranti 0.6p
First Scottish American Tst. 3½pcPf. 1.75p
General Motors Accept Cpn. Canada 16½ pc Nts 1/2/89 8¼ pc
Hospital Cpn. of America 16.5cts.
Johnson Matthey 2p
Mons Inv. Tst. 1.1p
Moorgate Inv. Tst. 5p
Norton Opax 1p
R.E.A. 1p
Reed Executive 2p
Rothschild (J.) 2.5p
Shell Intnl. Finance NV 8¼pc Nts. 1990 4¼pc
Shell Transport and Trading 7pc2ndPf 2.45p
TACE 5.65p
TR Trustees Con. 1.5p
Tex 1.5p
Thermal Scientific 1p
Tinsley (Eliza) 1p
Trafalgar House 7p
US WEST 76cts.
Whitecroft 3p, Do. 4.1pcPf. 2.05p
Witan Inv. 0.65, 2.7pf 1.35p

TOMORROW

COMPANY MEETINGS—
St. Ives, Great Eastern Hotel, Liverpool Street, EC, 3.00
BOARD MEETINGS—
Finals:
Phoenix Property and Finance
Unitech
Interims:
Davies (D. Y.)
Howard Shuttering
Meat Trade Suppliers
Property Security Investment Trust

DIVIDEND & INTEREST PAYMENTS—
Brookmount 1.3p
Cons. Co. Bultfontein Mine 1.40400p
De Beers Cons. Mines 40pcPf. (Br and Reg.) 31.9999p. 5pc2ndPf. 1.24799p
Feedback 1.25p
Griqualand West Diamond Mining 6.395999p
Murray Income Tst 2p

WEDNESDAY FEBRUARY 4

COMPANY MEETINGS—
Adam Leisure, 100 Wood Street, EC, 12.00
Tate and Lyle, London Marriott Hotel, Duke Street, Grosvenor Square, W, 11.30
BOARD MEETINGS—
Finals:
Bank Leumi (UK)
Union Discount
Interims:
Hambro Currency Fund
Victoria Products
Wintrust

DIVIDEND & INTEREST PAYMENTS—
Alcan 2p
American Medical Intnl. 18cts.
Gold Fields of South Africa Cnv. Pf. 45.328478p
Kansallis-Osake-Pankki 1992 $169.31
Priest (Benjamin) 0.125p
St. Ives 6p

THURSDAY FEBRUARY 5

COMPANY MEETINGS—
Burns-Anderson, Hotel Piccadilly, Piccadilly Plaza, Manchester, 12.00
Greenall Whitley, Lord Daresbury Hotel, Warrington, Cheshire, 12.00
Vaux, Seaburn Hotel, Sunderland, 12.00
BOARD MEETINGS—
Finals:
Aaronson Bros
Goode Durrant and Murray
Interims:
Aerospace Engineering
Mid Wynd International Investment Trust
Personal Computers

DIVIDEND & INTEREST PAYMENTS—
BTP 2p
Monks and Crane 1.1p

FRIDAY FEBRUARY 6

COMPANY MEETINGS—
Audio Fidelity, La Place House, 147, Sunbridge Road, Bradford, 9.30
Eldridge Pope, Dorchester Brewery, Dorset, 12.15
Kynoch (G. and G.), Isla Bank Mills, Keith, Banffs, Scotland, 4.30
McCorquodale, Norton Opax House, 17, Ripon Road, Harrogate, 11.00
Plaxtons (GB), Royal Hotel, Scarborough, 2.30
Wardle Storeys, Brantham Works, Brantham, Manningtree, Essex, 9.30
Williams (John) of Cardiff, Royal Hotel, Cardiff, 2.00

DIVIDEND & INTEREST PAYMENTS—
Bank of Tokyo (Curacao) 1991 $170.9
Belhaven Brew., 0.37p
British Build. and Eng. Appliances 0.75p
British Land 1.25p
Burns-Anderson 1.68p
Crean (James) 3.3p
Edbro 2.3p
Eldridge Pope A 3.75p
Electric and General Inv. 2.1p
Greenall Whitley Lim. Vtg. 3.2p. Do. A 0.64p
Greene King and Sons 1.96p
Halifax Building Soc. Ln. 1994 £140.66
Hanson Tst. 2.88p
Hasbro 2.25cts.
ICI 11¼pcLn. 1991-96 5.6897p
Intnl. Distillers and Vintners 8½pcLn. 1987-92 4¼pc
London Merchant Secs. 0.6p
Middle Witwatersrand (Western Areas) 19.030304p
Moss Advertising 1p
Printaprint 1p
Tate and Lyle 15p
Tiger Oats 8½pcPf. 5.5cts.
Vaux 8.32p
Whitbread and Co. 7¼pcDb. 1989-94 3⅝pc
Zandpan Gold Mining 3.171717p

SATURDAY FEBRUARY 7

DIVIDEND & INTEREST PAYMENTS—
Burroughs 65cts.
CGF Capital Bds. 2001 3¼pc
Southern Rhodesia 4½pc 1987-92 2¼pc

SUNDAY FEBRUARY 8

DIVIDEND & INTEREST PAYMENTS—
Reed Intnl. 7¼pcDb 1990-95 3⅝pc. Do. 10pcLn 2004-09 5pc

Parliament

TODAY

Commons: debate on the Royal Navy.

Lords: Animals (Scotland) Bill, third reading. Broadcasting Bill, third reading. Debate on the problems of the inner cities.

Select committees: Education, Science and the Arts—subject: prison education. Witnesses: Mr I. Dunbar and Mr J. Sandy, regional directors of the prison service. (Room 15, 4.30 pm). Treasury and Civil Service—subject: the Government's expenditure plans 1987-1988 and 1989-90. Witnesses: Treasury Chief Secretary and officials. (Room 8, 4.45 pm).

TOMORROW

Commons: Channel Tunnel Bill, remaining stages. Motions on the Dockyard Service Orders covering Devonport and Rosyth.

Lords: Fire Safety and Safety at Places of Sport Bill, committee. Local Government Act 1986 (Amendment) Bill, committee. Northern Ireland orders.

Select committees: Education, Science and the Arts—subject: the arts scrutiny session. Witnesses: Mr Richard Luce, MP, Arts Minister and officials (Room 15, 11 am). Parliamentary Commissioner for Administration — subject: reports of the health service commission for 1985-86. Witnesses: Waltham Forest Health Authority and Mid Downs Health Authority (Room 6, 4.30 pm).

WEDNESDAY

Commons: Rate Support Grants Bill, second reading, followed by Parliamentary and Health Service Commissioners Bill, second reading. Motions on Rent (Relief from Phasing) Order and the Protected Shorthold Tenancies (Rent Registration) Order.

Lords: Debate on the problems which have arisen in certain local authorities and on the policies pursued by them. Patents (Amendment) Bill, committee. Unstarred questions on *the takeup of benefits.*

Select committees: Foreign Affairs—subject: Cyprus. Witnesses: Baroness Young, Minister of State for Foreign Affairs and officials. Room 16, 10.30 am.) Trade and Industry—subject: motor components industry. Witnesses: GKN, ASTMS and TAFF. (Room 15, 10.45 am.) Home Affairs—subject: prisons. Witnesses: Prison Reform Trust, Howard League for Penal Reform. (Room 5, 4.15 pm.) Public Accounts — subject: Forestry Commission: review of objectives and achievements. Witness: G. J. Francis, Forestry Commission. (Room 16, 4.15 pm.) Social Services — subject: problems associated with AIDS. Witness: DHSS. (Room 21, 4.15 pm.) Transport—subject: merchant shipping. Witnesses: National Union of Seamen; International Association of Navigation Schools. (Room 17, 4.15 pm.) Environment—subject: pollution of rivers and estuaries. Witnesses: DoE officials. (Room 20, 4.30 pm.) Trade and Industry—subject: motor components industry. Witnesses: AEU and TGWU. (Room 15, 4.45 pm.)

THURSDAY

Commons: second reading of the Social Fund (Maternity and Funeral Expenses) Bill. Motion on the Education (Northern Ireland) Order. Opposed private business after 7 pm.

Lords: Gaming (Amendment) Bill, third reading. Debtors (Scotland) Bill, committee. Territorial Sea Bill, second reading. Coal Industry Bill, second reading. Merchant Shipping (Prevention and control of Pollution) Order 1987, motion for approval.

FRIDAY

Commons: Private members' bills.

APPOINTMENTS

Hanson Trust group posts

Two senior management promotions have been announced by the Imperial Foods division of HANSON TRUST. Mr Nigel Worne has been appointed managing director of Lea and Perrins International and will move from his post as retail marketing director of Ross Foods and Young's Seafoods on February 1. Mr Jim Cane, group marketing manager of Ross Young's, assumes Mr Worne's responsibility as retail marketing director designate.

★

Mr Alan Dearden has been appointed countertrade manager of BARCLAYS BANK. He succeeds Mr Dick Francis who set up the bank's countertrade unit three years ago and has now become a general manager's assistant.

★

Mr V. A. MacMillan has been appointed a director of POLCO PRODUCTS, the auto-accessory subsidiary of Armour Trust.

★

GRAND METROPOLITAN has appointed Mr R. Howard Stanworth president and chief executive officer of Pearle Health Services Incorporated. He joins Pearle from the Express Foods division of Grand Metropolitan, where he was managing director of the Express Dairy milk business.

★

At the NATIONAL HOME LOANS CORPORATION Mr Paul Dare has been appointed divisional director, treasury, and Mr Frank Butler is to become divisional director, business development, on February 1. Mr Dare was previously treasurer of Deminex UK Oil and Gas. Mr Butler, who was controller business development at National Home Loans, will be responsible for the development and co-ordination of new mortgage business.

★

Mr D. R. Parr, chief representative in Europe of the RESERVE BANK OF AUSTRALIA, is returning to Australia and will be succeeded by Dr M. R. Hill, formerly secretary of the bank.

★

HONEYWELL INFORMATION SYSTEMS has appointed Mr Roger Whitehead as director, marketing services.

★

ALBANY LIFE has made three management appointments. Mr Tony Close becomes regional director north. He was agency group manager north-west and manager of Manchester agency branch since 1982. Mr Terry Bond has joined as regional director Wessex from Abbey Life. Mr Nick Bryant is appointed regional director south-east. His most recent senior regional appoinment was with Prudential SA.

★

Mr Dennis Oliver has been appointed director, finance and planning at RANK XEROX (UK). His previous position of director, customer service has been filled by Mr Ian Livingston.

★

Following the retirement of Sir Richard Bayliss from the chair of PPP's board, the role of chairman is to be combined with the new role of chief executive — medical screening. It will be filled by Dr R. H. McNeilly, who will also be executive medical adviser from July on retirement of Dr James Ussher.

★

Former general manager Mr Michael Diacono has been appointed deputy managing director of SALLY LINE.

★

Mr Don Purdom, senior vice-president of claims, Highlands Insurance Company and Mr James D. Morgan, general manager of Highlands Insurance Company (UK), a wholly-owned subsidiary of Highlands Insurance Company, have been eelcted members of the board of HIGHLANDS INSURANCE COMPANY.

★

Baroness Gardner has been appointed to the board of GATEWAY BUILDING SOCIETY. She is a vice-president of the Building Societies Association, and a member of the London Electricity Board.

★

Mr John Quinto has been appointed as chairman of the CONFEDERATION OF BRITISH INDUSTRY'S economic and financial policy committee. He is chairman elect of Barclays Bank.

★

MBS is appointing Mr Robert Adams, formerly vice-president of Gandalf Digital Communications, as managing director of its newly-created MBS COMMUNICATIONS.

★

PEUGEOT TALBOT has appointed Mr Vic Scott as director of advertising and product strategies.

★

Mr Barry J. Hammond is appointed managing director of E. J. WELTON AND CO from February 1. Mr Deryck E. Cousins retires as chairman and managing director on January 31. He remains a non-executive director.

★

Mr Paul Bonner, controller of programmes at Channel 4, is to join ITCA next summer. He will succeed Mr Colin Shaw as director of the programme planning secretariat when Mr Bonner's four-year contract expires.

★

Mr Michael H. Haysey is appointed director of marketing of ASTON MARTIN LAGONDA from February 2. Mr Haysey has spent the majority of his career in the motor industry formerly with Volkswagen Audi NSU and latterly with BMW GB.

★

Mr Timothy D. Lyons has joined PRUDENTIAL-BACHE capital funding — international division, as managing director in the capital market group. He was formerly with Salomon Brothers International where he was a vice president responsible for currency swaps.

★

ICL (UK) has appointed Mr Roy Maddick its northern region director. He has held a number of senior sales management roles in ICL and immediately prior to this appointment had total responsibility for ICL's post sales support in northern region.

★

Ms Kay Beckett, national organiser of the home heating group of the Heating and Ventilating Contractors' Association, has become the first woman to be elected to the board of the NATIONAL HOME IMPROVEMENT COUNCIL.

★

CORRECTION

Due to a typographical error *these appointments* were incorrectly reported as "US" posts.

Four senior appointments have been made within NATIONAL WESTMINSTER'S newly formed commercial banking services, whose responsibility is to develop the bank's UK business relationships. Mr Fred Pointon becomes senior executive of the major UK corporates group while Mr Keith Francis takes over as senior executive, mid-corporates. Mr Kevin Jennings is senior executive, small businesses, and Mr Trevor Blackler senior executive, business strategy and co-ordination. They all previously held senior appointments in NatWest's domestic banking division.

FINANCIAL TIMES SURVEY

Monday February 2 1987

Quebec

A new climate of self-confidence is evident in Quebec since it shrugged off the independence issue. Its vigour in the mainstream of North American business outstrips the rest of Canada

New force in the mainstream

QUEBEC HAS emerged from a quarter century of introspective turmoil as a lively and self-confident society ready to capitalise on its unique role as the only predominantly French-speaking region in North America.

Spearheaded by the 14-month-old pro-business Liberal Government of Mr Robert Bourassa and a fresh generation of entrepreneurs and administrators, Canada's biggest province is on its way to setting an example to the rest of the country by breathing new life into the private sector, gradually reining in government, and broadening trade and investment horizons.

Besides moving into the mainstream of North American business, Quebec is also reconciled to its place in the fold of Canadian confederation.

It is no longer toying with independence. Instead, Canada's other nine provinces and the Federal Government in Ottawa have joined the Bourassa Government in the search for a mutually acceptable way to let Quebec adhere to the Canadian constitution, which former Parti quebecois premier Rene Levesque refused to sign in 1982.

Quebec's new vigour is remarkable because it is the product of events which might have destabilised other societies for many years. As one Montreal lawyer observes, "We have shown that we can deal with the most fundamental problems of society in a democratic and decent way."

Quebeckers have been exposed in the past 25 years to unsettling forces. The intense debate over separation from the rest of Canada raised tensions with the Federal Government in Ottawa and heightened business uncertainty.

A rapid growth of government intervention in business during the 1960s and 1970s followed by one of the deepest recessions this century tested Quebeckers' commitment to a market economy.

In the social sphere, the modernisation of a traditional, largely rural society eroded the role of the Roman Catholic church as a centre of influence. One of the lowest birth rates in any industrial country and an invasion by US cultures raised fears about the future of the French language and identity in North America.

These traumas for a time cast a dark shadow over Quebec's future. In retrospect, they also laid the foundations for its revival.

The nationalistic policies of the Parti quebecois government, in office from 1976 until the end of 1985, may have damaged external confidence in Quebec. But the PQ also enabled Quebeckers to get the independence issue out of their system, first by debating it thoroughly, and then by putting the matter to a vote in the 1980 referendum.

Likewise, the PQ's policy of giving the French language a monopoly in public life lost friends in English Canada and among Quebec's non-francophone minority. But by removing any doubts about the pre-eminence of French, the PQ contributed to a greater sense of security among Quebec francophones. Although they outnumber other language groups four-to-one in their home province, the francophones are a small and vulnerable island in the English-speaking sea of North America.

Far from pushing Quebec into isolationism, the deep 1981-83 recession created a greater awareness in government, trade unions and business of the province's dependence on the outside world and the need to improve productivity and competitiveness.

The PQ government's generally interventionist policies did not preclude its imaginative finance minister, Mr Jacques Parizeau, from finding ways of turning record numbers of Quebeckers into entrepreneurs and investors.

The result of these events is a society which in many ways is the envy of the rest of Canada. Quebec's real growth rate of 3.7 per cent last year exceeded the Canadian national average, and is expected to do so again in 1987 and 1988.

The free-enterprise ethic is alive and well. Quebeckers account for four in every 10 business school graduates in Canada, and francophones are taking their place in growing numbers among the senior managers of large Canadian corporations.

Almost 250 companies have been listed on the Montreal Stock Exchange in the past two years. While most French-Canadian companies are still dwarfed by their Toronto-based counterparts, they have become increasingly assertive investors in Canada's other nine provinces, in the US and in Europe.

Construction in downtown Montreal is booming, as outside confidence in Quebec's future improves. Canadian Imperial Bank of Commerce, a pillar of the Anglo-Canadian establishment, for the first time held its annual meeting in Montreal this year.

One telling sign of the new climate of self-confidence is that Quebec is far more enthusiastic than neighbouring Ontario about the free trade talks currently under way between the US and Canada.

Finally, Quebec's political influence in Ottawa has seldom been greater. The province accounts for a quarter of all seats in the Canadian House of Commons and is thus a key to success in federal elections. With federal Prime Minister Brian Mulroney's roots on the north shore of the St Lawrence River, Quebec is being showered with political favours, from federal contracts to key government appointments.

Remarkable as it is, Quebec's revival cannot obscure some worrying problems. Unemployment among young people is running at almost 17 per cent.

A declining unemployment trend in recent years is due more to a drop in the workforce (caused mainly by a low birthrate) than to job creation.

Regional disparities appear to be widening. While Montreal and the nearby Eastern townships are forging ahead strongly, areas which depend heavily on forestry, mining and other natural resources—such as the more northerly Saguenay-Lac St Jean and Abitibi-Temiscaminque regions—are troubled by low commodity prices and an uncompetitive workforce.

As attention has shifted to economic problems and opportunities, interest in greater political autonomy has faded. Even the PQ, now in opposition, has for the time being dropped its pursuit of "sovereignty-association," the concept which aimed to combine political sovereignty with continuing close economic ties with the rest of Canada.

The spectre of past political tensions was suddenly revived last December when several businesses displaying English signs were firebombed or threatened with violence.

The flare-up followed a landmark court decision striking down parts of Bill 101, the PQ's French-only language law. Uncertainty on the language issue has been fuelled by the Bourassa Government, which has found itself caught between hard-line francophone activists and its earlier commitment to a more flexible language policy.

The violence, which may have been the work of vandals rather than political activists, for a few days raised fears that extremism was once again rearing its head.

It is a sign of Quebec's maturity that opinion formers have urged restraint and tolerance. If they do opt for compromise rather than confrontation on as sensitive an issue as language, Quebeckers will have strengthened their credentials as an integral—albeit unique—part of the Canadian mainstream.

Bernard Simon

Premier Robert Bourassa: providing a good deal of firmness in the middle of the road

Bourassa wins the middle way

Robert Bourassa in his second term as premier has adopted a policy of not saying much but doing a lot

ROBERT BOURASSA, who deftly steered Quebec through a new era of self-confidence, seems a different person from the weak premier whose inexperience cleared the way for the Parti quebecois victory in 1976.

Once insulted by former Canadian prime minister Pierre Trudeau as "a little hot-dog eater," Mr Bourassa has gained the respect of most sections of Quebec society since he began his second term as premier in December 1985.

He has provided what one of his ministers calls "a great deal of firmness in the middle of the road." A private sector economist says that the present Bourassa Government has "adopted a policy of not saying much, but doing at lot."

Mr Bourassa contrasts 1976 and 1986 by observing that "when you're dealing with your seventh year of power, it's slightly different to your first." He points to the hazards of overexposure in politics, adding that Quebec voters have always been reluctant to give their governments more than two terms in office.

Made premier for the first time in 1969 at the tender age of 36, Mr Bourassa was blamed for much of what went wrong in Quebec in the early 1970s.

The imposition by Ottawa of the War Measures Act in 1970 reflected Mr Trudeau's impatience with the Quebec leader's inability to quash an outbreak of separatist terrorism.

The Bourassa Government was blamed for the financial troubles of the Montreal Olympics, and for a wave of corruption scandals.

A lawyer by training (with spells at Oxford and Harvard), Mr Bourassa spent the years between 1976 and his re-election as Quebec Liberal party leader in 1983 studying and teaching in Europe and the US. He wrote a book on his pet project of selling vast amounts of surplus Canadian water and hydro-electric power to the US.

He returned to Quebec less aloof, but no less determined to regain office.

Mr Bourassa, now aged 53 (though he looks much younger), hides his political ambition behind a mild and friendly manner. He says that he hopes to have at least two terms to deal with the problems of the province's ageing population, high unemployment and heavy debt burden. "I should like to leave office with a more dynamic economy, more political stability and more social harmony," he says.

He is generally supportive of efforts to conclude a Canada-US free trade agreement. "It's risky to negotiate with an economic giant," he observes, "but it will be riskier not do it and to face protectionist pressure all the time." One condition is that any accord must include safeguards for vulnerable Quebec industries, notably farming and textiles.

While eager to bring Quebec into the 1982 Canadian constitution, Mr Bourassa leaves no doubt that his Government has higher priorities. He says that formal negotiations with Ottawa and the other nine provinces will not start "if we don't have an excellent chance of succeeding."

He predicts that, whatever happens on the constitutional front, the next election in Quebec will be fought on economic issues.

Bernard Simon

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QUEBEC 2

Politics

Separatism on the backburner

QUEBEC POLITICS have moved into calmer waters in the past two and a half years since the departure of Federal Prime Minister Pierre Trudeau, accession of a new Progressive Conservatives governor in Ottawa and the Quebec Liberals' resounding defeat of the separatist Parti-quebecois.

The burning issues of nationalism, language, immigration, education, unemployment and social change are never far from the surface, but perspectives have changed. Quebeckers no longer look to their provincial government for magical solutions.

The 1981-83 recession devastated Quebec's resource and manufacturing economy, and concentrated minds markedly. The PQ Government had to tone down its separatist rhetoric and co-operate with Ottawa to speed revival.

Robert Bourassa and the Quebec Liberals campaigned for greater government efficiency and faster economic recovery. They were voted back in December 1985 with 99 seats in the 122-seat National Assembly. Rene Levesque, in office as premier for eight years, had left and the PQ under his successor Pierre Marc Johnson was hopelessly split on the independence issue. After a year's honeymoon, Mr Bourassa has pulled off a major political coup by getting 300,000 public-sectors workers to agree to a three-year contract providing annual wage increases of just over four per cent. Earlier, the construction unions signed a similar agreement with contractor employers in free-bargining for the first time in 10 years.

Open warfare with the public sector and construction union, in an economy overheated by the James Bay hydro project and the 1976 Olympics in Montreal, contributed to Mr Bourassa's downfall in 1976.

At the Federal level, Brian Mulroney's Conservatives won 58 out of 75 Quebec seats late in 1984, repeating the John Diefenbaker landslide nearly 20 years earlier.

But Mr Mulroney has tripped up on several economic issues and his popularity has declined sharply.

A mediocre grassroots organisation has also made it difficult for the Tories to capitalise on their 1984 victory. Controversy has erupted on several occasions over the personal behaviour and business dealings of Tory caucus members.

According to opinion polls, the Federal Liberals are showing major gains. The New Democrats, traditionally a federalist Anglophone party, are for the first time making a showing in the province although the extent of their long-term support is difficult to judge.

For their own different reasons, Mr Mulroney and Mr Bourassa need to make some mileage on bringing Quebec into the 1982 Canadian constitution. A first ministers' conference may be held later this year to negotiate the terms of Quebec's formal adherence.

The previous attempts in the past 15 years have failed.

The Quebec Liberals, striving to retain a distinct identity from their federal cousins, came back in 1985 with a commitment to sign the 1982 Constitution. Essentially their position has not changed since before the PQ era.

The Bourassa Government wants recognition for Quebec as a "distinct society", recognition of its veto on constitutional change, more power over immigration, more say in the appointment of Federal Supreme Court judges, greater taxing powers, and a more favourable equalisation formula for distributing federal revenues among the provinces.

The road towards agreement will be rocky, because all federal political parties and the other provinces are as far as ever from agreeing on any form of "distinctiveness" or special status for Quebec. Progress will not be helped by the reverses in Mr Mulroney's fortunes in Quebec and the rise in popularity of the NDP. The Federal Liberals under John Turner have exploited successfully Conservative gaffes over industrial restructuring in Montreal. The Quebec wing of the NDP has been assiduously courting support by adopting a policy of special status for Quebec—a position which has already brought it into conflict with the more centrist Federal NDP.

The PQ now says that long-term "sovereignty for Quebec" remains fundamental to its platform. But a new nationalist group, the Parti independantiste, taunts Mr Johnson and calls the PQ "clinically dead."

Many of the PQ's stalwarts, such as former Finance Minister Jacques Parizeau and Social Affairs Minister Camille Laurin, left politics before the 1985 provincial election with Mr Levesque. Mr Johnson has been left with the difficult task of healing deep wounds and trying to run an effective opposition with only 23 National Assembly seats.

Robert Gibbens

The Economy

A touch of austerity

THE BOURASSA Government is taking advantage of a period of sturdy economic growth to look for ways of correcting the volatility of the Quebec economy.

By adopting a modest austerity programme now, the Government hopes that it will have more elbow room if needed later to stave off another slump on the scale of the 1981-83 recession.

Mr Ghislain Fortin, the finance ministry's economic adviser, says that the aim is to cut the budget deficit from C$2.9bn in 1986-87 to not much more than C$2bn within five years. Government spending is due to be pruned by C$300m in 1987-88.

Pointing out that bankers have raised eyebrows at the rapid increase in Quebec's external debt in the past decade, Mr Fortin says that "we want to avoid at all costs the situation in which the Government would not be able to put the automatic stabilisers into play (during a recession)."

A variety of programmes has been pruned. Cutbacks in the Quebec stock savings plan, which offers tax breaks to stock market investors, will yield C$80m a year. Industrial subsidies have been reduced by C$50m. The authorities plan to withdraw financial support for community television stations. Privatisation of public sector assets has brought in about C$175m in the current fiscal year.

Wages make up half of non-capital spending, and the Government is especially proud of contracts struck with most of the province's 300,000 public sector workers late last year which will hold their annual increments to an average of 4.1 per cent over the next three years. This means no increase at all in real terms.

Mr Henri-Paul Rousseau, chief economist at National Bank of Canada in Montreal, says approvingly that the Bourassa Government "has adopted a policy of not saying much, but doing a lot."

His comment needs to be qualified. First, several of the initiatives now bearing fruit—for example, efforts to broaden the tax base and improve relations between public and private sectors—were initiated by the previous Parti quebecois government.

Second, the present regime has so far enjoyed the freedom of manoeuvre created by an expanding economy. After growing at an average annual rate of only 1.7 per cent in real terms between 1978 and 1984, Quebec's output rebounded by 3.9 per cent the following year and about 3.7 per cent in 1986.

Improving confidence as well as the impact of lower interest rates and rising incomes are reflected in the surge of housing starts from 24,000 in the depths of the last recession in 1982 to 58,000 last year.

The Quebec economy as a whole is relatively well balanced compared with that of Canada's other provinces. It is not as heavily dependent on cyclical commodity markets as the western provinces, nor is any single manufacturing sector as important as the automotive industry is to Ontario.

On the other hand, Quebec manufacturing is traditionally heavily oriented towards low-growth classic consumer goods such as textiles and shoemaking.

But special problems have hit some parts of the province hard. Declining competitiveness in the iron ore market and worldwide resistance to the use of asbestos have decimated several once-thriving mining communities. Cheap imports from the Far East have hurt the Montreal-based textile industry. Montreal's petro-chemical producers, which use oil-based feedstocks, have found difficulty keeping pace with companies further west which have access to cheaper natural gas.

General Motors has asked for government aid to ensure the long-term viability of an ageing assembly plant at Ste Therese, north of Montreal.

Quebec's growth rate in 1986 was slightly higher than the estimated 3.3 per cent recorded in Canada as a whole. Although its performance is expected to remain above the national average, the rate of increase is likely to slow this year and continue at modest levels in 1988. Economists estimate annual real growth in Quebec's domestic product at between 2.5 per cent and 3 per cent this year and next.

The spotty manufacturing sector and weak non-residential investment are the main drag on higher growth. According to forecasts by the Royal Bank of Canada, solid gains in paper, transport equipment, primary metals and food industries will be offset by a lacklustre performance in leather, textiles and clothing, and petroleum products.

With the US accounting for about three-quarters of Quebec's out-of-Canada exports, the business outlook depends heavily on the course of the US economy and the exchange rate of the Canadian dollar.

Two macro-economic developments have recently damped down the competitiveness of Quebec and other Canadian exporters. The Canadian dollar has put up an unexpectedly strong showing in the past three months, despite an inflation rate which, at over 4 per cent is well above that of the US.

On the other hand, the impact of falling domestic interest rates on consumer and housing demand may give a boost to Quebec industries which cater mainly for the Canadian market.

Bernard Simon

Economic Forecasts

(% change*)	1986	1987	1988
GDP	5.9	6.2	7.2
RDP (real domestic product) (1971=100)	3.2	2.8	3.0
Employment	2.0	2.1	2.3
Unemployment rate (%)	11.2	10.5	9.9
Disposable income	4.5	5.3	6.5
Retail sales	7.5	5.0	6.5
Housing starts ('000)	59.0	53.0	47.5
Non-res. investment	6.9	6.7	5.5

* Unless otherwise indicated

Source: Royal Bank Economics Department forecasts

France has big stake

QUEBEC'S ECONOMY is heavily oriented towards international trade and investment. Although exact figures are not available, Quebec is host to large chunks of American and European capital, the former mostly invested in branch plants operated by US corporations in Quebec, the latter in the form of direct foreign investment, particularly in natural resources.

Foreign subsidiaries dominate the petro-chemical and pharmaceutical industries, but US companies have a more modest presence in Quebec than in neighbouring Ontario. French companies are the leading European investors, with a presence six times larger than in neighbouring Ontario. Several French banks have their Canadian head offices in Montreal.

The provincial government goes out of its way to help exporters—through direct subsidies, export/import financing, and tax credits—and to entice foreign companies with concessionary loans, energy contracts, and land.

Those incentives have helped 2,000 Quebec companies ship about C$15bn worth of goods to the US in 1985.

The value of French investments in Canada is likely to top C$2bn this year, up from C$800m in 1980. Perhaps as much as half that will go to Quebec.

A Franco-Canadian economic co-operation accord, to be signed during French Premier Jacques Chirac's visit later this year, may pave the way for even more investment. Quebec and French companies are expected to take best advantage of the subsidies and tax breaks under the accord, signing joint ventures in sectors ranging from computer technology to defense manufacturing.

Some companies have not waited for the agreement. Pharmaceutical company Scoa SA, the plastics group Sommer Alibert and Dumez SA, are among the best known of the French business which have invested in Quebec recently.

Other countries are eyeing Quebec as well. Hyundai Motor of South Korea is building an auto plant in Bromont, near Montreal, while Norsk Hydro, Norway's energy processing company, last year announced plans to build a C$400m magnesium plant in the industrial park at Bécancour.

While the province works hard to pull in foreign investors, Quebec companies are investing heavily abroad. Forest products group Cascades has made C$15m worth of acquisitions in France since 1984, helping to raise the value of Canadian investments in that country to C$100m last year. Domtar, a forest products company based in Montreal, is negotiating to spend C$335m on gypsum wall board plants in the US, while press baron Pierre Péladeau last year made three high-profile printing plant acquisitions south of the border.

Mathew Horsman

Financial institutions

Montreal aims to become an international supermarket

The old and the new Bank of Montreal with (foreground) the statue of de Maisonneuve, founder of the city in 1642 and its first governor

MONTREAL IS no longer Canada's financial capital, having long ago been shunted aside by Toronto. Once the headquarters of virtually every major bank, many insurance companies, and the nation's largest securities dealers, Montreal is today very much of the financial second tier.

None the less, the city's financial industry shows impressive signs of dynamism. Two of Canada's largest and most successful financial conglomerates—Laurentian Group and Power Financial Corp — have their headquarters in Montreal.

The country's second most profitable bank, National Bank of Canada, does most of its business in its home province, Quebec. And Montreal-based McNeil Mantha, one of Canada's fastest growing investment dealers, has used its extensive provincial network as a base to expand aggressively into western Canada.

The province might surge ahead even further if Quebec manages to convince the Federal Government to designate Montreal as an "international financial centre," where international transactions are free of tax.

No one — least of all Quebeckers—expects Montreal to regain its position as Canada's most important financial city. But institutions in Quebec have managed to find some lucrative niches, and are out in front in the march toward full-scale financial services networking — the so-called financial supermarket.

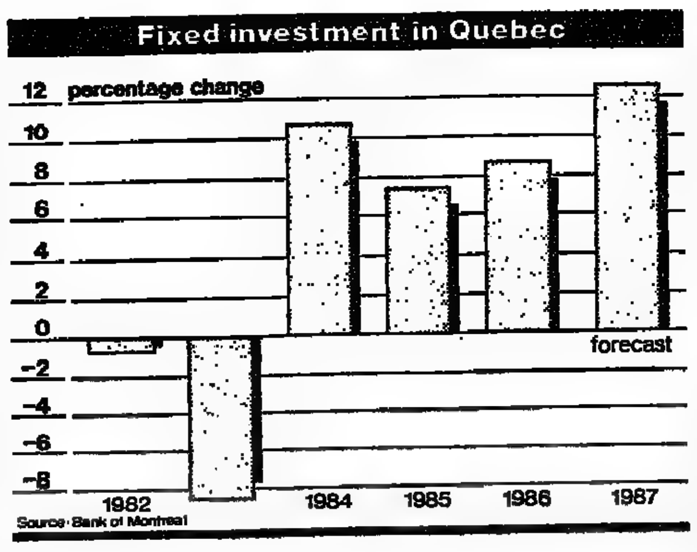
Government initiatives have helped. Changes in Quebec provincial financial services legislation over the past few years have unleashed the energies of innovative bankers, securities dealers and other financiers.

The reforms have cleared the way for banks and other institutions to own securities dealers, and made it possible for insurance companies to offer a complete range of financial products through "downstream" holding companies.

The legislation was passed not by the current Liberal administration of a pro-business technocrat premier Mr Robert Bourassa, but by the Parti quebecois, a nationalist, separatist party which in its first years in power in the mid-1970s instituted strict language laws, raised already-high taxes, and heaped new, inhibiting regulations on business.

By the early 1980s, the mood in Quebec City had changed. The PQ had taken on a new political hue, winning a second term on its promises of good government. That shift heralded the financial services reforms.

Quebec had the country's most liberal financial services legislation until the Federal government announced its "Big Bang" blueprint late last year, under which financial institutions in other parts of the country will be able to operate in virtually every sector, from securities dealing to insurance and consumer and corporate lending.



Quebec has some of the country's strongest hybrid financial institutions, peculiar to the province.

Among them are: Caisse desjardins. Created to meet the banking needs of rural Quebecers, the Quebec credit union movement, with assets of C$22bn, now offers insurance, brokerage and trust services, and is even expanding outside the province.

- Caisse de dépôt et placement du Québec. The pension fund investor for public sector employees wields tremendous economic power. With assets of C$25bn, it invests in public and private Quebec companies, in major Canadian banks, manufacturing, and energy companies, and is represented on the boards of some of the province's top corporations. The Caisse is Canada's largest equity investor, with C$7bn portfolio.

- Laurentian Group, with heaquarters in Quebec City but in all save name a Montreal-based conglomerate, is arguably the closest thing in Canaa yet has to a financial supermarket. The holding company, listed on the Montreal Exchange but controlled by Laurentian Mutual Insurance, owns 31 per cent (with access to another 20 per cent) of Canada's only federally chartered savings bank, Montreal City an District, as well as 100 per cent of Vancouver-based Yorkshire Trust an mutual funds company Eaton Financial Services.

Laurentian's key holdings are still in the insurance field, where the company first began. The conglomerate owns Imperial Assurance, Laurentian General Assurance and Imperial Life, a London-based, full-service insurance company.

It also owns 27 per cent of Montreal securities dealer Geoffrion Leclerc, which it shares, in part, with Paris-based Banque Indosuez. That gives Laurentian a powerful European link, and may mean that the company will be looking for new business in Europe, particularly in France.

- Power Financial Corp, the financial services arm of Mr Paul Desmarais's Power Corp, owns 54 per cent of Montreal Trust, 96 per cent of insurance company Great-West Life, and 96 per cent of mutual funds company Investors Group. It controls assets of about C$40bn.

Like Laurentian, Power also has a European connection. Its 17 per cent holding in Pargesa, based in Geneva, gives it a link to the giant Groupe Bruxelles Lambert and merchant banker Banque Paribas.

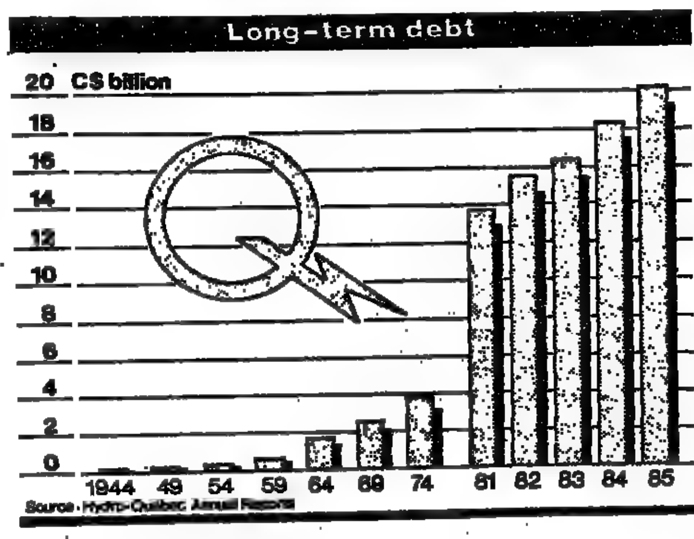
A ready source of business for these conglomerates is Quebec's innovative stock savings plan (QSSP), under which purchases of new issue shares can be written off against provincial income tax. Since the plan was instituted in 1979, the number of companies coming to market has skyrocketed, pumping up demand for fiduciary, transfer, and financing services.

The QSSP has raised C$5bn for Quebec companies in the past seven years.

That has given the Montreal Exchange a much-needed boost. In 1979, the year the QSSP was established, Montreal's share (by value) of total Canadian trading stood at 10 per cent. By 1986, its share had shot to 20 per cent, mostly at the expense of the much larger Toronto Stock Exchange.

Mathew Horsman

Mr Horsman is Quebec bureau chief of the Financial Post of Canada.



Profile/Hydro-Quebec

Expansion plans cause dilemma

HYDRO-QUEBEC, the province's big power utility, is on the horns of a dilemma. Politicians—with premier Robert Bourassa to the fore—are eager to give the Quebec economy a shot in the arm by proceeding with the construction of new hydro-electric generating projects.

Some of Hydro-Quebec's own managers see scope for the utility to become a bigger supplier of electricity to north-east US states and neighbouring Canadian provinces.

The problem is that H-Q has not fully recovered from the financial strains caused by its huge investment spinrge in the 1970s. As one of Canada's biggest borrowers on international capital markets, the provincially-owned utility also wants to ensure that future spending plans do not unravel progress already made in putting its finances on an even keel.

"We want to keep the province's and our own credit rating where it is," says Mr Andre Dubuc, vice-president for finance.

Mr Bourassa hopes that the next stage in developing the huge hydro-electric potential of James Bay, at the southern tip of Hudson Bay, will start before the end of 1988. The first phase of the James Bay project, completed in 1985, added 10,300 Mw to H-Q's capacity at a cost of over C$4bn.

H-Q's present generating capacity of 24,400 megawatts is considered sufficient to meet domestic demand for electricity until the end of the century. Any hopes of proceeding with the second phase of James Bay thus depend on new power-hungry capital projects in Quebec or H-Q's ability to find new export markets.

Norsk Hydro of Norway will take a minimum of 100 Mw for a new magnesium plant to be built at Becancour, with an option for as much as 400 Mw.

H-Q is already a substantial supplier of electricity to New England and the state of New York, as well as to the neighbouring Canadian provinces of Ontario and New Brunswick. Exports to these areas were worth C$646m last year, and contributed about one-fifth of H-Q's total sales volume.

Contracts already signed will give H-Q a 10 per cent share of the New England electricity market by 1990. A 690 Mw direct current transmission line to New Hampshire was opened last October. Plans are in hand to raise the line's capacity to 2,000 Mw and extend it to Boston.

H-Q executive vice-president for external markets, Mr Jacques Guevremont, says that the utility is "very close" to signing substantial new contracts with US customers. One proposal is 1,000 Mw connection to Central Maine Power.

The biggest obstacle is price. Mr Guevremont says that the huge cost and substantial risk of building new generating facilities mean that H-Q is not necessarily providing cheap energy. "We're trying to set up contracts that will remain within reasonable economic limits for 20-25 years," he says.

H-Q hopes to convince potential US customers that its abundant hydro-electric resources are a more secure supply than imported oil. The province has an untapped hydro-electric generating potential estimated at 40,000MW.

With American banks among H-Q's biggest creditors, the utility also contends that closer links with US customers are in the best interests of all parties.

The plunge in world oil prices has complicated the search for new business. Not only does oil compete with hydro-electricity as a source of power, but H-Q's export contracts have traditionally been linked to the oil market.

Lower oil prices have thus dented the utility's 1986 revenues and are likely to dampen down its financial performance this year too. The link with oil explains why the volume of H-Q sales grew by 8.8 per cent in the first nine months of last year, while revenues rose by a more modest 5.7 per cent.

The biggest drag on H-Q's finances however, is the heavy cost of servicing its C$20.4bn debt, which has almost doubled since the beginning of the decade. Interest payments rose by 16 per cent in 1985 and by another 8 per cent last year. At C$1.68bn in the first nine months of 1986, they were higher than H-Q's operating income of C$1.53bn. The weak Canadian dollar has caused exchange losses of over C$900m since 1981.

Debt service charges are expected to flatten out this year at C$2.2bn to C$2.3bn. H-Q refinanced C$1.9bn of high coupon debt in 1986. It has cut the foreign currency component of its debt from a peak of 70 per cent to 50 per cent.

Provided there is no slump in the North American economy, H-Q's financial managers are optimistic that its balance sheet will strengthen over the next few years. According to Mr Dubuc, "any growth should go into the bottom line, unless we get a recession." The ratio of equity to capital, now 24 per cent, is expected to reach a 25 per cent target by 1989. If current projections are correct, return on equity and the average cost of the utility's debt—at present 5 per cent and 11 per cent respectively—will converge by 1991.

The overall economic climate and terms of new contracts will determine the extent to which these financial targets can be met, should H-Q decide to press ahead with the second phase of James Bay.

But the utility will almost certainly try to minimise risk by tackling the second phase in much smaller increments than the first. The three La Grande Stations already built at James Bay have capacities of 5,300MW, 2,650MW and 2,300 MW. The next generation of facilities is unlikely to be built in stages of more than about 500MW each.

Bernard Simon

Future of the province

Waiting for a sense of destiny

THE LOWEST birth rate on the Continent, an eager admiration for any kind of entrepreneurship, a business-friendly provincial government, and a strong taste for the most radical cultural movements from Europe or the US have not made Quebecois totally indifferent to their churches and traditions. But such traditional institutions are now looked upon, mostly as a heritage worthy of preservation and respect, rather than of commitment and devotion.

Any kind of collectve faith or sense of mission seems to have deserted, for the time being at least, the only French "state" in North America.

There are those who say that pronounced individualism is a short-term reaction to the overdose of obsessive political debates of the 1970s, which led to the narrow defeat by a referendum in 1980 of the nationalist proposal for a form of "sovereignty-association" with the rest of Canada.

Some historians and political scientists regularly remind us that nationalism is deeply rooted in the French-Canadian psyche, and goes through endless high and low tides. Quebecois will be seized again by a sense of destiny, they assume, and will go through another cycle of collective assertion against the assimilating forces surrounding them on an English-speaking continent.

Though it is true that waves of natiionalism have periodically rallied a large part of the population since the Patriot Rebellion of 1837, the Quebec of 1987 cannot count any longer on the homogeneity which was an essential feature of such past movements.

Until the mid-1970s, Quebec's élites shared common values, were of the same class: that of the clergy and the professions until 1960, followed by the intellectuals and the technocrats of the Quiet Revoluton. But the 1980s are witnessing a profound and enduring clash between the values of a "double élite," the new dynamic business class, and the still powerful triangle of unions, academia and civil service which shaped Quebec into what it is.

The 50:50 split among French-speaking voters in the May 1980 referendum roughly maps the respective influence of these two groups. Both care for the future of Quebec; it is unlikely, however, that their divergent interests will ever be bridged in any kind of political common purpose.

Demography has taken care of ethnic homogeneity. The Montreal area, with almost half of the province's population, is a lively mix of 65 per cent French-speaking people, 11 per cent English-speaking, and the rest from various ethnic backgrounds. The latter used to learn English as their second language but are now often turning to French.

Even if they were finally to integrate or to assimilate into the French majority, these newcomers and their descendants cannot be expected to share the same sense of history, much less to engage in traditional quebecois battles. And these groups are the fastest growing in the province.

If the revival of strong political nationalism, and thus of a large autonomist or even independentist movement is unlikely, will Quebec and its new values quietly sink into the Canadian ensemble, under the comfortable American umbrella?

Despite the 1980 referendum results, no lasting agreement has emerged between Quebec and the rest of Canada. The 1982 Canadian constitution was agreed between the federal government and the nine other provinces, against the unanimous will of all parties in Quebec's provincial legislature. Since then, despite some federal repentance and promises of seeking a "new deal" with Quebec, the rest of Canada has been reluctant, to say the least, to come to any meaningful compromise with the dissident province.

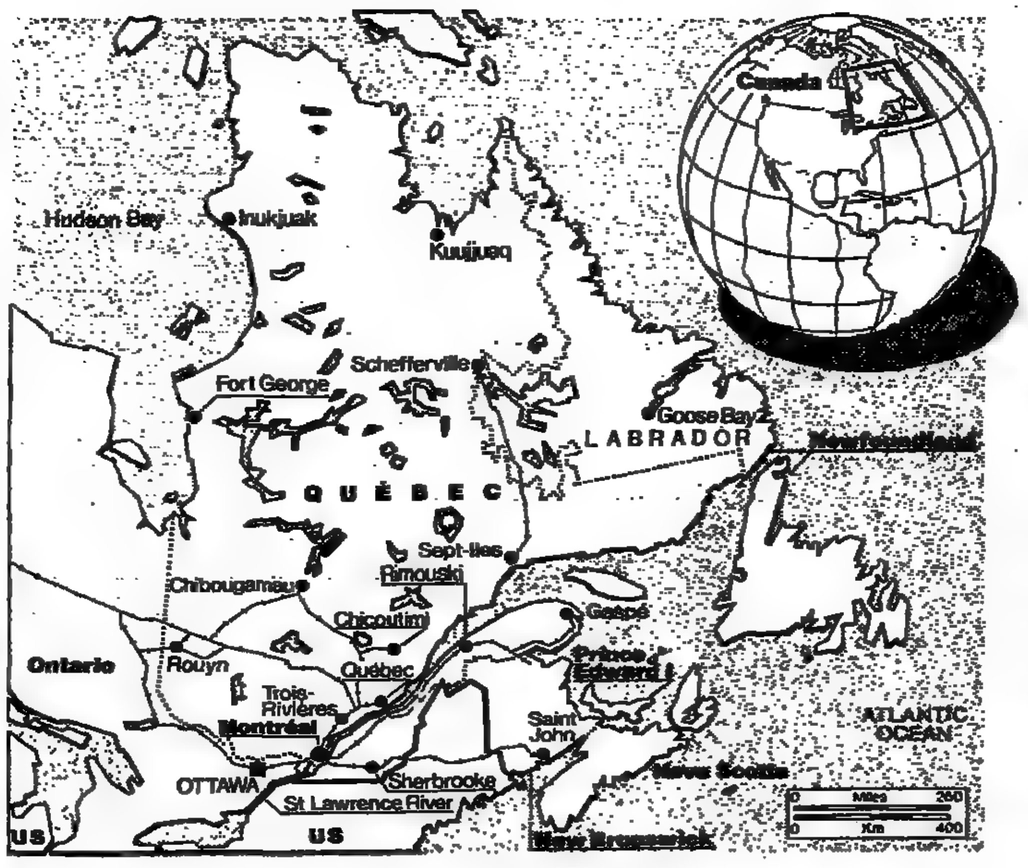
Indifference has settled in on both sides. So that if the separatist movement has faded, it has certainly not been replaced by an accrued sense of belonging to Canada.

The new French-speaking entrepreneurs want to expand out of domestic Quebec markets. Many show more interest in free trade with the US than do their colleagues in English Canada.

Such a movement is not without its risks. There may be a naive tendency to think that America is less hostile to the peculiarity of Quebec than is English Canada. But the phenomenon may be an unconscious way to keep Quebec's distance from the rest of Canada, to compensate the political defeat of nationalism in 1982 by a subtle shifting of focus, giving Quebec a North American option on its own terms.

Lise Bissonnette

Quebec affairs columnist for the Toronto Globe and Mail and political columnist for Le Soleil in Quebec City.



Profile: Paul Desmarais

Bus route to an empire

PAUL DESMARAIS, a 60-year-old Franco-Canadian from the nickel-mining town of Sudbury, Ontario, has built Power Corporation of Canada into Quebec's largest private-sector financial, industrial and publishing empire. Power Corpn. and its 70 per cent-owned Power Financial Corpn. subsidiary control or manage assets of more than C$40bn.

The principal group companies are: Great-West Life Assurance Company, one of the three largest Canadian life companies; Montreal Trust; The Investors Group, a large financial services unit; Consolidated-Bathurst Inc., the big pulp and paper and packaging group; daily and weekly newspapers and broadcasting interests mainly in Quebec. Outside North America, Power has a 17 per cent voting interest in Pargesa Holding SA, making Power one of four controlling shareholders in the Geneva-based investment holding company.

Paul Desmarais:

Mr Desmarais tried to get control of Canadian Pacific in 1981 after buying a 4.4 per cent direct interest for C$174m. But he met determined resistance from the management and ended up agreeing not to raise his interest to more than 15 per cent. Seeing some of the problems developing in CP's resource and industrial subsidiaries, he sold out for C$194m in 1985, as disappointed as in the 1970s when he was rebuffed by Argus Corpn., the big Toronto holding company.

Mr Desmarais, son of a Sudbury lawyer, took over his father's bankrupt bus business in the early 1950s with loans from the Royal Bank of Canada and Inco Ltd. He dropped out of law school, and within a year or two turned the bus company around. Soon he acquired other bus operators in Ottawa and Quebec City.

He descended on Montreal like a thunderclap, buying several family-owned holding companies, and eventually snatching control of Great-West Life from Peter and Edward Bronfman, who were building the financial services and industrial empire now known as Brascan Ltd, of Toronto.

Next was Canada Steamship Lines Ltd, the largest Canadian Great Lakes carrier (which Power has since sold), and Consolidated-Bathurst, in which Associated Newspapers of Britain is a partner. CB is building a large packaging business in the US.

Mr Desmarais is gradually handing over responsibility for his companies to his sons, Paul Jr, aged 31, and André, 29, and a handful of senior executives. But he remains very active, travelling to China and the Soviet Union, in search of investment opportunities—and an unofficial ambassador for Canada.

Power Corpn. and Power Financial, with a corporate reorganisation behind them, are ready for some big moves in 1987. Expansion is likely in publishing, broadcasting and communications (in Canada, the US and possibly in Europe), in pulp and paper and packaging, and financial services.

The two companies can muster around C$750m in cash, and they and their subsidiaries have vast untapped borrowing powers.

Robert Gibbens

New Quebeckers

More business heroes

QUEBEC HAS become a nation of entrepreneurs. That might surprise anyone with sour memories of the early 1970s, when business was a cosy, mostly Anglophone affair, and the Francophone majority was more concerned with language, culture, and politics than with international trade and the economy.

Bouts of nationalist fervour or renewed calls for independence cannot be ruled out. Francophone Quebec, by its very nature, is uncomfortably aware of the great North American Anglophone sea in which it is, after all, a very small island.

But since the Parti quebecois lost the 1980 referendum requesting a mandate to negotiate independence from Canada, Quebec has turned its energies to business. In the process, a new generation of entrepreneurs, once dismissed as "sell-outs" to anglo sensibilities, have become public heroes.

Chief among this new breed are:

- Guy Bonneau, founder of Artopex International, a leader in modular furniture manufacturing and distributing. The company is posting record sales this year, and has begun a concerted attack on the huge but difficult US office market.
- Remi Marcoux, co-founder and president of GTC Transcontinental Group, Canada's fastest growing company (by profit), has carved out a niche in the advertising market. On the back of that success, he is building a communications mini-conglomerate of printing companies and publications that may soon rival the empire of his mentor and new competitor, the legendary Montreal press baron, Pierre Péladeau.
- Bernard Lemaire, perhaps the most famous entrepreneur of them all, has made a fortune buying outdated paper mills, refurbishing them, and then turning them into a handsome profit. His company Cascades, which he controls with his two brothers, went public in 1982, with a share issue priced at $5. Those shares are worth the equivalent of $95 today. Buoyed by his success in Quebec, Lemaire has since taken France by storm, buying three mills there, and listing a French subsidiary over-the-counter in Paris.
- Marcel Dutil, president and controlling shareholder of steel products company Canam Manac, is giving Cascades' Lemaire some competition as Quebec's most popular entrepreneur. Rapid expansion for Canam Manac in the US is expected to push the company into a bigger league in 1987. Dutil is also part owner of Québecair, formerly a provincial government airline. He reportedly has his hand in several private companies as well.

These men have joined the ranks of the well-established, alongside such seasoned entrepreneurs as Pierre Péladeau, the self-professed nationalist and majority owner of Quebec's largest media and printing empire, Quebecor. Or the mercurial Paul Desmarais (strictly speaking a franco Ontarian, though his empire spreads

Forty per cent of Canadian business school graduates last year were Quebec residents. And a quarter of college students in the province enrolled in some kind of business course.

outwards from Montreal), who over the past 20 years built his fleet of buses into today's sprawling industrial and financial services conglomerate Power Corp.

The success of these men is setting an example to young Quebecers.

Fully 40 per cent of all Canadian business school graduates last year were Quebec residents, and a quarter of all college students in the province enrolled in some kind of business course in 1986.

They're moving on to Quebec's small and medium-sized businesses in record numbers, according to administrators at the province's largest business school, L'Ecole des hautes etudes commerciales (HEC) in Montreal. HEC's retiring director, Pierre Harvey, says two-thirds of graduates last year went to work for companies with fewer than 500 employees.

These students find they can work in the large, multinational firms as well. Since 1976, when English-speaking managers—worried about the political climate under the Parti quebecois—began leaving the province, boardrooms have been increasingly open to Francophone executives.

But Mr Harvey says many large corporation executives are moving on to their own businesses. For example, founders of Canada's largest firm of computer consultants, DMR Group of Montreal, worked at IBM before striking out on their own.

These self-starters are given a boost through Quebec's innovative stock savings plan, under which Quebec companies have raised over C$5bn since 1979. The plan provides investors with tax write-offs when purchasing new share issues. These incentives have convinced small companies, which traditionally look to the debt market for financing, to come to the public equity market instead.

Despite the widespread new business spirit, the state sector, favoured during the interventionist 1960s and 1970s, still wields tremendous power.

That has led to the current Government's programme to privatised state companies, reduce red tape, and cut subsidy programmes.

Still, the period of state interventionism has helped Francophones to wrest control of their economy from the Anglophone minority and from foreign companies.

The Quiet Revolution of the 1960s began the process of creating a generation of French-speaking technocrats, some of whom are now leading businessmen. Mr Pierre Lortie, chairman of food wholesaler and distributor Provigo, and Mr Claude Castonguay, the highly-regarded chief strategist at finance services conglomerate Laurentian Group are just two of the hundreds of Quebec business leaders who cut their teeth in the civil service.

Most francophone business people see the Quiet Revolution, and the state interventionism it spawned, as a virtual precondition of today's pro-business spirit. It was not until the Francophone majority could be "masters in their own house"—the slogan of the Liberal Government elected in 1960—that cultural introspection could give way to entrepreneurial verve and energy.

Mathew Horsman

Montreal

Where French and English meet

MONTREAL, hub of Quebec's economy and Canada's second largest city, is enjoying a modest renaissance after years of doubt about its future.

Never lacking in ambition, imagination and rhetoric, Montrealers have put behind them 20 years of language strife, excessive *politique de grandeur* of former mayor Jean Drapeau, two energy crises and the worst post-World War Two recession.

There have been moments of glory, such as the Expo 67 fair. But the city's customary *joie de vivre* has been severely tested by the exodus of 100,000 anglophones and more than 100 major businesses, a contracting tax base and a stagnating population. The recession brought a drastic restructuring of traditional industries.

Montreal has had to accept playing second fiddle to Toronto as a business centre. In its new role it is the cultural capital for the francophones of North America, a link between Europe and North America, and one of the continent's regional financial hubs.

The confident breed of young, well-educated francophones who have taken over Quebec's economic reins are determined to keep Montreal in the mainstream, with a reviving economy based on high-technology and other viable industries.

There is a certain historical logic about their ambitions. In the early days, the European explorers sailing up the St Lawrence, trying to find a passage to the riches of Cathay, were blocked by the rapids just east of Montreal. Soon the settlement became a supply centre, a major port for the flourishing fur and timber trade with Europe and, later, Canada's commercial capital.

Much of the city's commercial prowess was built by anglophone families. Yet now the francophones, who account for about 70 per cent of Greater Montreal's 2.5m people, find that almost everywhere they can conduct their work as well as their private lives in French.

Montreal voted for the separatist Parti quebecois a decade ago, eagerly embracing its social democratic ideals. Just over a year ago, it voted the PQ out again with equally firm determination, seeking better economic management and a government that would favour Montreal's interests over those of Quebec City 150 miles away. Now Quebec City residents complain that some provincial government departments have moved most of their employees to Montreal.

Montreal wants to have a French face and preserve the gains won by francophones over the past 20 years, but it is not willing to be cut off and isolated. Most residents accept a considerable measure of multilingualism, apparently aware that the city's cultural revival must be founded on a sound economy.

The 30-year reign of Mayor Drapeau ended last summer, just as the tower in his extravaganza, the $1bn Olympic Stadium, was being completed ten years after the games. Jean Doré, a personable 41-year-old labour lawyer, has taken over at the City Hall, where in 1967 President de Gaulle shouted his famous *"vive le Quebec libre."*

Montreal has always looked south to the North-eastern United States for trade, but the new Liberal provincial government in Quebec City has also sought closer links with Ontario. The $14.5bn Phase I of the James Bay hydro project brought prosperity to Montreal in the early seventies. A modest start on Phase II is possible by 1988.

Construction cranes are out again as another wave of office buildings takes shape, but this time with more style than those built in the 1950s and 1960s. The city's anglophone western core is being linked with the francophone east thanks to several projects sponsored by large francophone financial institutions.

Land values in Montreal are only half those of central Toronto. But the smaller city can justifiably point to its "quality of life" in trying to attract industrial and commercial growth.

Its jewel is the Wooded Mountain within the city (Mont-Real is Old French for Mount Royal), and its glory the St Lawrence waterway. The city's array of cultural and sports facilities, the variety of its hotels and restaurants, the juxtaposition of 17th and 18th century architecture with the glass curtain-walling of the 20th, are unique in North America.

Robert Gibbens

THE ARTS

Architecture/Colin Amery

The boom in museums

Tomorrow sees the public opening of the latest new museum addition in New York—the Lila Acheson Wallace Wing for Twentieth Century Art at the Metropolitan Museum. Inch by inch and yard by yard the Metropolitan eats its way into Central Park, spreading the sea of culture further and further beyond the street. The floor plan that is given you—in fact you need a street-finder—is already out of date.

The growth of existing museums and the building of completely new ones is a seemingly endless American saga. Museums are *the* building type of the last quarter of the century, almost as though we want to feel, because the future is so unpredictable, that at least the best of the past is secure.

It was in 1970 that Kevin Roche of the American firm Kevin Roche, John Dinkeloo and Associates began alterations and additions to the museum and drew up a Master Plan which is still being slavishly followed. While it makes perfect sense to plan the growth and expansion of a museum in a logical way, in architectural terms the continuing employment of Kevin Roche has added little to the glory of the Metropolitan Museum.

> '. . . a seemingly endless American saga'

I asked the director of the Metropolitan, Philippe de Montebello, to explain the architectural approach; he pointed out that the museum likes an architect "who knows where the leaks are" and that at the "Met" they have a distinct preference for architectural neutrality.

It is quite difficult to see the difference between the various benefactions — Lila Acheson Wallace looks much like Sackler and Robert Lehman and they all look much like the American Wing. Gone are the days when there was an element of cultural didacticism about the architecture of the museum.

Architecturally the Metropolitan Museum has interesting origins. The first building, by Calvert Vaux and Jacob Wrey Mould, was completed in 1880 and was in a very agreeable red and white Ruskinian Gothic style. You can still glimpse it through the Lehman Wing. The most public element of the museum is the Fifth Avenue façade which is by Richard Morris Hunt (1906) and added to by McKim Mead and White four years later. It was Kevin Roche who added the grand, great stair to the front of this Beaux Arts façade. This is one of the livelier sights on Fifth Avenue on any sunny day; the rather austere flanking fountains, also by Roche, are very appropriate.

Today you walk through the Kevin Roche revamped great hall, which has something of the air of a department store with excellent but rather brassy museum shops. Four great urns—the "continuing gift of Lila Acheson Wallace" filled with floodlit flowers are further reminders of the generosity of the late *Readers Digest* millionaire.

Whatever architectural reservations there may be about the bland growths that sprout so regularly from the old body of the Metropolitan, the opening of the 20th-century art collection is a major event. It cost some $26m. It is four storeys high rising over the underground car park at the south-west corner of the museum to the rear of the Michael C. Rockefeller galleries of primitive art.

This new wing, with 60,000 sq ft of exhibition space, is larger than the Guggenheim and the Whitney and about two-thirds the size of the Museum of Modern Art in the same city. There are some 22 galleries on three levels. The only space that has any sense of architectural drama is the 30 ft high sculpture court dramatically lit by a sloping skylight. In a harsh snowy light, when I saw this space, it was decidedly glaring, the light killing the paintings hung immediately beneath the windows. It is the 20 ft high ceilings that enhance the new galleries, devoted to contemporary paintings and give the place a pleasant feeling of an uptown loft.

Certainly the large scale of many of the galleries is an improvement on the small scale white rooms of much of MOMA's recent expansion. The planning of the new rooms definitely suits the more recent works that hang there. You tend to meander around them, a *trifle uncertainly*. You are given neither architectural nor artistic directions.

In the earlier galleries there is more of a sense of order. The Sharp Gallery offers a short but stimulating introduction to the cross currents of 20th-century art. Bonnard and the Impressionists share space with a survey of American painting that starts in 1905. The important Alfred Steiglitz collection of works by American artists that he collected himself were given to the museum in 1949 by his widow, the artist Georgia O'Keefe. On the earlier level there is also the museum's show of some of its design and architecture collection.

This is rather a curious installation of furniture and objects that are arranged in a way that offers the visitor some extraordinary juxtapositions. Vienna of 1900 meets the modern movement Art Deco sits strangely on its stone platform. Small scale galleries hold the Berggruen collection of work by Paul Klee and a collection of modern photographs.

The one mildly controversial exhibit is the installation of a party of Robert Rauschenberg's visual autobiography, *Quarter Mile or Two Furlong Piece*. His flattened shirts and piles of old hardback books arranged as three columns do not make a convincing display of his undoubted talent. Here is a case of an artist being given much too much room to fill.

The styleless nature of the new wing at the Metropolitan and the curious decision to try and add a building to the Guggenheim and double the size of the Marcel Breuer Whitney Museum, with an extension by Michael Graves, suggest a loss of direction in New York. The proposals by Gwathmey Siegel to add on to the already perfect Frank Lloyd Wright Guggenheim are being fiercely fought in New York. They do not deserve to succeed; there must be a limit to the architectural indulgence that wants to spoil one masterpiece for the dubious distinction of endlessly housing collections that put growth before discrimination.

The same argument applies to the expansion of the Whitney Museum of American Art. Michael Graves came up with a proposal that ingeniously embraced the concrete walls of the Breuer building in the arms of Post Modernism. So overpowering were the advances of Graves that the original building became a mere corner of a new temple in his own version of an Aztec monument.

More interesting but again wildly expansionist are the winning proposals for the new wing to be added to the Brooklyn Museum, designed by Arata Isosaki working with the New York architect James Polschek. This looks a beautiful and delicate scheme that respects the Botanic Gardens and even proposes the removal of some of the alterations of the 1930s to restore the totality of the original Beaux Arts interiors.

When will the museum boom end? In many ways it looks as though it is still warming up to its peak. The designs by the New York architect Richard Meier for the Getty Museums next phase in Los Angeles have now reached the stage of conceptual models. Will Meier produce something that is unlike his abstract white constructions that he has already built (for museums, of course) in Atlanta and Frankfurt? Rumour has it that he is responding to the Hollywood hills in a way that may produce some surprises.

Here in England the Tate Gallery will in April open its new Clore Galleries for the Turner Collection. They are designed by James Stirling who has also recently been commissioned to build galleries for Baron Thyssen in Lugano and has won a remarkable commission to expand the venerable Brera in Milan.

> '. . . they are the last opportunity for the grand gesture . . .'

For architects, museums are the contemporary equivalent of churches or universities. They are the secular equivalents of the Victorian benefactions to the churches for the donors too. It will soon be possible to write the entire history of the modern architecture of the last few decades entirely in terms of museums—they are the last opportunity for the grand gesture, an association of the art of the present and the past. It is an association where both sides definitely benefit.

Alastair Muir

Neil Dudgeon, Julia Ford and David Ryall

School for Wives/Lyttelton

Martin Hoyle

Di Travis has been praised for her direction of small-scale and touring theatre with both our national companies. Michael Coveney in these pages has lauded her work with *The Mother* for the NT education department and her lack of a major production at the National or the RSC has long been adduced as an example of the neglect suffered by women directors in a (theatrical) man's world.

Merit has been rewarded with a baroque comedy in the unyielding Lyttelton auditorium (some reward!); and, as if to shw us just what she can do, Miss Travis proceeds to make thing hard for herself with a perverity that borders on genius.

Molière's opening scene presents us with one of his unbalanced obsessives talking to one of those humane, wordly-wise cynics who are so often the mouthpiece of reason. Sure enough, we see David Ryall doing us all a service with his low-key, naturalistic throwaway delivery of the laboured rhyming (and creaking) alexandrines of Robert David MacDonald's new translation. We also see that master of quivering neurosis, repressed angst, hysteria and incipient dottiness, Roger Lloyd Pack. Unfortunately he represents the norm while Mr Ryall embodies the fanatic. Mr Lloyd Pack is utterly at sea, wretchedly miscast and misdirected, so that his effortful piping of lines like "Marry a ninny, then?" sound footlingly fatuous.

An uncertainty as to whether to laugh with the play or at it leaves much of the characterisation blank. As the c onvent-reared innocent kept in jealous seclusion by her guardian, Julia Ford shows a fine comic touch when harangued on wifely duties by the Petruchio-like Arnolphe. Her climactic realisation of her own shameful ignorance, however, is neither touching nor rebellious; merely the whine of a flustered supermarket cashier.

The evening's most dramatic moment is the very opening when Gerry Jenkinson's lighting illuminates a stage of frozen figures, a whole society in a stricken world. Straw bales on the cobbled slope of Pamela Howard's set add a rustic air; rudimentary crosses recede over the hill. A star-twinkling background of mudged blue depicts the Leo and Virgo from some medieval zodiac.

Arnolphe's house boasts pulleys, painters' cradles, canvas sheets. The decidedly un-comic servants are grubby farm-workers whose *coitus interruptus* (inspired by their master's words, "Your love must be displayed"?) mark one of the production's more desperate moments. The faintly agricultural air—is Arnolphe an old-fashioned country squire?—makes nonsense of the references to the city and its heartless society ready to mock the cuckold. The sheltered Agnes, barefoot and hair dishevelled, comes on in a shift like Ophelia, and is remarkably bucolic for the product of a 17th century convent.

David Ryall, an NT stalwart, struggles with a production that makes this comedy dull, unvaried and rudderless. In a reversal of Molier*'s intentions, he often seems the one normal character on stage. His intimate style and quiet ferocity when, teeth gritted, h edrawls with ferocious urgency through his nose, make up for the lack of a naturally light comic touch. He displays glimmers of integrity throughout a slightly bizarre and, one feels, bewildered evening, whose final manifestation of the Madonna, her hand upraised in blessing, is the most grotesquely misplaced piece of directorial uninspiration I have seen for some time.

Stravinsky Plus/Barbican Hall

Andrew Clements

Exactly what Gennadi Rozhdestvensky is setting out to demonstrate in the juxtapositions of the *Stravinsky Plus* Festival he is conducting with the London Symphony Orchestra at the Barbican over the three weeks is not entirely clear. The concept is attractively straightforward: take six of Stravinsky's most celebrated works, combine them with pieces written in the same years, and surround the concerto with a package of exhibitions, lectures and lunchtime and foyer events.

Thus for Thursday's opening concert Elgar's Violin Concerto was programmed with *The Firebird* ballet, both written in 1910; Sunday's concert brings an encounter between *Petrushka* (1911), Prokofiev's First Piano Concerto and Ravel's *Daphnis and Chloe*, then Debussy's *Images* is paired with *The Rite of Spring*, and so on. In some cases the selections do give a sense of Stravinsky's radicalism, in others the ways in which he exchanged inflences with his contemporaries. But towards the end of the series in particular, a desire to invent popular programmes seems to predominate: the Violin Concerto of 1931 could usefully have been pitted against Schoenberg or Berg, for instance, but instead it appears with *Belshazzar's Feast*.

It's significant, too, that the survey stops at 1945, with Stravinsky at the height of his neoclassical powers; there is no sample of the late serial works or an attempt to show how at the end of his career he did come to terms (albeit his own terms) with the strand of 20th-century modernism that had run in parallel with his own career for more than half a century. Yet any scheme, whether worked out completely or not, can be justified if it provides the basis for high-quality music-making. The success of *Stravinsky Plus* will lie much more in the excellence of the performances than in its musicological or historical usefulness.

First impressions were only partially convincing. The festival was launched most uncertainly with an account of the Elgar concerto that found Ida Haendel in an edgy, acidulated mood. It is a work that she can play with great sweep and effectiveness, but this was a very pale shadow of that, and her lack of assurance transmitted itself to the orchestra, which played without conviction or rounded tone, and obtained little encouragement from Rozhdestvensky.

Much of *The Firebird* was several orders of magnitude more accomplished; at least it gave the sense of having been rehearsed with some thoroughness. It did not quite convince one, however, that Rozhdestvensky has a reason for conducting the complete score rather than the suite; the well-known set pjieces emerged the most vividly, and the section from the Infernal Dance to the close produced the boldest playing of the evening. Elsewhere, transitions and minor scenes were only roughly sketched, and without consistent pin-point accuracy the work can seem unwontedly long-winded.

Jazzmen play for imprisoned Czechs

Tonight in London at the ICA, the Mall, prominent British jazz musicians will take part in an evening of music to show solidarity with imprisoned members of the jazz section of the Union of Musicans in Prague, Czechoslavakia.

Last September seven leading members of the section were arrested and charged with "illicit trading." This followed two years of harassment of the section by the Czech authorities. Three of the leaders have been freed but the others remain imprisoned. It is to show concern in the West for these that the British musicians will play this evening.

Among those participating are the big band Loose Tubes, Mike and Kate Westbrook with Chris Biscoe, District 6, Jim Mullen and John Taylor and Kenny Wheeler.

Guest speakers will include Index on Censorship editor George Theiner, Charles Alexander (president of the International Jazz Federation), and international barrister Geoffrey Robertson.

A Wholly Healthy Glasgow

Martin Hoyle

The Mobil Playwriting Competition has struck oil again. Iain Heggie's comedy took a special prize in 1985 and has now prompted some audience outrage in Richard Wilson's production at Manchester's Royal Exchange. Mr Heggie's dialogue bristles with casual if common expletives, heightened and honed into an elliptical, demotic Scots equivalent of David Mamet, a writer whose influence he acknowledges. A Glaswegian quirkiness and —dare one say?—wholly British feeling for language make this a funny as well as a rude play; and signal the arrival of a highly individual new voice.

Smooth operator Charley and seedy masseur Dick have a good thing going at the Spartan Health Club, respectively hard-selling subscriptions and indulging in dubious après-massage therapy. This agreeable *modus vivendi* is jeopardised by a new instructor, an earnest idealist ("Eighteen-years-old and totally not into the acquisition of wealth," it is noted with incredulous disgust) who aims for "a wholly healthy Glasgow" by 1990; "a city of perfectly proportioned, sinuous but not over-developed physiques . . . non-smoking, non-drinking joggers . . . A city of reposeful but alert minds." Much of the comedy springs from the machinations of the old hands as they try to sabotage this threat to all they hold dear.

Each member of the trio is sharply characterised in the writing; each has his own rhythms and verbal trade marks. The boy ends every query with an automatic "sorry." Charley audibly indents each spoken paragraph with a jabbing vocal "*and*" (even when following it with "but"). Dick, played by Tom Watson with the beady-eyed balefulness of an epicene turtle, is just obscene—when not threatening to return to London ("Ah had a chandelier in ma kitchenette") and the Earl's Court Road where "you get your nooky every 15 seconds."

As young Murdo, Paul Higgins throbs with crusading zeal and refers to his enthusiasm in tones of lugubrious solemnity, taking on the pathetic vulnerability of the hurt puppy while almost visibly wising up. Gerard Kelly's super-salesman is magnificent. He has the most lines in a conversation-piece that is perhaps 10 minutes too long—wordy, but wonderfully playable roles; what a good TV piece it would make. Not the least fascinating aspect of the play is its reminder that Glasgow has been designated a European City of Culture for 1990. One is lost in wild surmise as to the response of plane-loads of eager Euro-aesthetes, Florence and Athens still vivid in their minds, when urged, in a characteristic Glaswegian phrase, to "chase your jobby round a U-bend."

March of the Falsettos

Martin Hoyle

Northward look, the theatrical sky is bright. Not only was Edinburgh's corner in Molière confirmed last week by the NT's thumpingly wrong-headed *School for Wives* (most tolerated, it seems, by those who know the play least), but once again Manchester's Library Theatre has emerged as Europe's trail-blazer in superbly slick presentation of intelligent American musicals. (Sorry, NT —*Seberg* doesn't count.)

William Finn's off-Broadway *March of the Falsettos* (1981) has become something of a cult. The 75-minute centrepiece of a projected triptych, this *durchkomponiert* set of variations on articulate, wry, self-probing New York Jewish angst comes over as Sondheim with tunes, Woody Allen without glibness, Neil Simon with guts.

The opening number, "Four Jews in a Room Bitching," sets the tone. Marvin has left his wife for a younger partner who likes sex, money and (preferably French) *chic*. The archetypal *poule de luxe*, in fact; except that this *poule* is a *coq*. Marvin has shacked up with another man, and "My father's a homo" sings Damien Walker, astonishingly assured at 12 years old, as son Jason. (Did Italia Conti dream it would come to this?)

The piece lightly but never superficially probes the characters' feelings—guilt, good intentions, agonised fairness ("Daddy's sincere but a schmoe," sings deserted Trina to their son); Marvin's desire for wife, child and lover to be a cosy group ("I want it all"); the boyfriend's affectionate opportunism ("Ask me if I love him—it depends on the day"); and the psychiatrist's attraction to the abandoned wife. The male lovers squabble in domesticity. The analyst treats the whole family. Father and son come to terms.

The pleasure never flags. Against Chris Kinsman's set (giant Venetian blinds, silvery and reflecting, a door-frame, mobile exec furniture) Roger Haines directs a polished cast. Simon Green (more a minor public schoolboy with major weaknesses than a pretty predator on the make in NY) and Martin Smith, whose Marvin has a fleeting look of Gene Kelly, convince in both attraction and exasperation. Paddy Navin's generously performed wife may yet end up a camp idol, to judge by one section of the audience; and Barry James, always good, has moments of dotty splendour as the shrink—but beware the top over which one must not go.

Simon Lowe leads six excellent musicians in what amounts to a tribute to Howard Lloyd-Lewis, the scheduled director, who died suddenly at 42 in December. *Falsettos* is rumoured to be London-bound. Ironically, this company's triumphs, in its satellite theatre at Wythenshawe, included Lloyd-Lewis's productions of Sondheim's *Pacific Overtures* and *Follies*, either of which devoted enterprises would have been an ornament to the West End.

Frozen Assets/Half Moon

Claire Armitstead

A whole lot of water has passed under Tower Bridge since Barrie Keeffe's *Frozen Assets* surfaced in 1978 disgorging its load of urban anger on to the RSC. Its reappearance at the Half Moon, appropriately close to the still-beating heart of Keeffe's native East End, reveals a play that has somehow resisted valiant attempts to bring it forward into Thatcher's Britain (and Liberal-controlled, yuppyised Tower Hamlets).

Frozen Assets tells the story of Borstal absconder Buddy, society's fall-guy nicked for "take and drive," whose part in the accidental death of a warder sends him out on the run through a city that either doesn't care or doesn't want to know. Abandoned by a dying mother, rejected by his bent brother-in-law, a spiv in crook's clothing who trades in class war cliches, he falls among the filthy rich, here represented by a Liberal MP, a gay Labour peer, and a dentist's wife who bribes garage mechanics by the ton.

In his update for the collective Docklands Theatre Company, Keeffe has taken on board a frame of reference that belongs to 1987, but jokes about the Big Bang and Wapping are cosmetic to a play at whose heart lies a somewhat lazily articulated attack on the upper classes (both born and become) and a final, sentimental lament for the "true" cockney. If the latter, delivered by Tony Kenway's improbable dosser, is meant to be ironic it misses the mark but it it is hard to believe one is expected ot take it seriously.

The show is directed by Paul Tomlinson against a set by Paul Miller that sprawls evocatively across the concrete expanse of the Half Moon, a mess of bedsteads, graffiti and stolen goods. Through it blunders Marc Tufano's Buddy, a convincing —even endearing—portrait of naive perplexity adrift in a landscape of caricatures. There are moments when a real sense of anger emerges and instants when Keeffe's familiar flick-knife humour makes contact with the funny bone.

But significantly, the moment that draws the most laughs is a monologue by Marlene Sidaway as snooty MP's wife, Edna, which functions almost as a stand-up routine: predictable prejudice spiced with incongruous sexual confidences, a tried and tested formula that has litle to do with character or original wit, and a lot to do with throwing bad eggs at bogeymen.

German arts in London

The Festival of German Arts, the largest and most important display of the German arts ever mounted in the UK, will take place in London from April 27 to the end of June. Sponsored by Mercedez Benz with £500,000, and also backed by German state funds, the Festival will cost almost £750,000.

Drama will be concentrated in performances by Peter Stein's Schaubuhne Company of Berlin at the Lyttelton Theatre in May.

Citizens' into the summer

The Citizen's Theatre, Glasgow is to continue its programme into the summer for the first time this year, comprising two Citizens' productions to be followed by a series of visiting company shows.

The two Citizens' productions will be *Death of a Salesman* by Arthur Miller and *Anna Karenina* adapted by Robert David MacDonald. Visiting companies include the TAG company with Pam Gems' *Piaf* and 7:84 Theatre Company with *The Gorbals Story*.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

January 30–Feb 5

Music

ITALY

Rome, Auditorium in Via della Conciliazione: Wolfgang Sawallisch conducting Beethoven (with violinist Uto Ughi). (Mon and Tue). (654 1044).

Rome, Oratorio del Gonfalone (Via del Gonfalone 32a): The. Gonfalone Chamber Orchestra with flautist Onorio Zaralli. C.P.E. Bach and Frederick II of Prussia (Thur). (687 5952).

Rome, Teatro Olimpico (Piazza Gentile da Fabriano): Padua Chamber Orchestra conducted by Giorgio Carulni (who also plays the organ). Handel organ concertos and Bach cantatas (sung by soprano Susanna Rigacci). David Short plays the trumpet. (Wed). (393 304).

SPAIN

Barcelona: Alberni String Quartet. Beethoven (Tue). Centro Cultural de la Caixa, Passeig San Joan.

Madrid, Daniel Barenboim. Beethoven Sonatas. Teatro Real, Plaza Isabel II. (Tue-Thur).

PARIS

Gabriel Bacquier, baritone, Ghylaine Raphanel, soprano, Elizabeth Cooper, piano: Donizetti, Bellini, Massenet, Mozart (6.30pm); Barbara Hendricks, soprano, Gino Quilico, baritone, Academy of Saint Martin-in-the-Fields conducted by Iona Brown (8.30pm). Both concerts Monday. Théâtre Mogador (4874 5724).

Shirley Verrett with the Nouvel Orchestre Philharmonique conducted by Stefan Soltesz: extracts from Norma, Otello, Don Carlos, Le Cid (Mon). Opéra Comique-Salle Favart (4296 0611).

Trio-Gabriel: Schumann, Villa Lobos, Brahms (Tue). Salle Gaveau (4563 2030).

Daria Hovora, piano: Boccherini, Villa Lobos, Rachmaninov (Wed). Salle Gaveau (4563 2030).

Orchestre de Paris' soloists with Andras Schiff as conductor and piano soloist: Bach (Wed, Thur). Salle Pleyel (4561 0630).

Europe Chamber Orchestra conducted by Gidon Kremer: Mozart (Thur). La Villette (4240 7722).

TOKYO

Suntory Hall, Akasaka. Barry Douglas, piano. Beethoven, Liszt, Mussorgsky (Mon); Beethoven, Rachmaninov, Shostakovich, Schumann (Tue). Suntory Music Foundation Award Winners' Concerts: Michio Kobayashi, harpsicord. Bach, Recital Hall (Mon); Sumire Yoshihara, Yasunori Yamaguchi percussion, Hiroshi Shibayama, oboe. Contemporary music including Iannis Xenakis and premiered by Yuji Takahashi, Jo Kondo, Norio Fukushi. Recital Hall (Tue). Nagoya Philharmonic Orchestra, conducted by Yuzo Toyama with Kiyoshi Shomura, guitar. Schubert, Rodrigo, Rachmaninov. (Wed); Italian Opera Arias by Yoshinobu Kuribayashi, baritone and Toshiko Tsunemori and Kiyomi Toyoda, soprano. New Japan Symphony Orchestra conductor, Kotaro Satoh. Verdi, Donizetti (Thur). (505 1010).

Yasuo Watanabe, piano. Beethoven, Schubert, Schumann, Ravel. Tokyo Bunka Kaikan Recital Hall (Tue). (573 3588).

NEW YORK

Merkin Hall (Goodman House): Carmit Zori violin recital with Charles Abramovic piano. Fritz Kreisler, Beethoven, Dvořák, Bartok, Bruch, Wieniawski (Tue mat); Calliope, a Renaissance band. Susato, Lesbio, contemporary Catalonian Cobla Band Music (Tue); Kimball Wheeler mezzo-soprano recital with Samuel Sanders piano. Respighi, Bartok, Villa-Lobos, Gerorge Tsontakis (world premiere), Strauss (Wed); Keith Romano countertenor recital. Bach, Benton Hess (world premiere), Handel, Hasse, Lully, Rameau, Monteverdi, Lieder from Germany and Scandinavia (Thur). 67th w. of Broadway (362 8719).

Music at the Crossroads (Whitney Museum Branch): The third *annual* American Sampler with Andy Statman Klezmer Orchestra performing contemporary Jewish music and Vassar Clements playing bluegrass fiddle (Tue, 6pm). Sculpture Court, Philip Morris Bldg, 42nd & Park.

Carnegie Hall: Guarneri Quartet/*Kalichstein/Laredo/Robinson* Trio. A programme of quartets by Haydn, Beethoven, Schoenberg, Brahms (Tue); Ivo Pogorelich piano recital. Mixed programme (Wed); Jessye Norman soprano recital. Mixed programme (Thur). (247 7800).

New York Philharmonic (Avery Fisher Hall): Kurt Masur conducting. Horacio Gutierrez piano with New York Choral Artists led by Joseph Flummerfelt. Chopin, Liszt (Tue); Kurt Masur conducting, Glenn Dicterow violin, Lorne Munroe 'cello. Siegfried Matthus, Brahms, Schumann (Thur). Lincoln Center (874 2424).

WASHINGTON

National Symphony (Concert Hall): Hugo Wolff conducting. Mstislav Rostropovich 'cello. Schumann, Bloch, Dvořák (Tue). Kennedy Center (254 3776).

CHICAGO

Todd Wilson organ recital (Orchestra Hall): Sowerby, Vivaldi, Bach, Dupre, Widor, Reubke (Tue). (435 8111).

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Monday February 2 1987

Case for Iran arms embargo

IT IS very easy, if one has the good fortune to live a long way from the Gulf, to spend most of one's time not thinking about the Iran-Iraq war. For public opinion outside the Islamic world there is very little to choose in terms of attractiveness, or of the opposite, between the two regimes locked in mortal combat. Dr Henry Kissinger spoke for many when he said, early on in the conflict, that it was a pity both sides could not lose.

It is easy, therefore, to turn one's mind elsewhere and to shrug off the appalling human cost of a war which has already taken at least half a million lives—quite possibly a million. Especially easy, though no more honourable, if one happens to share neither the religion nor the culture, nor yet the skin colour, of the unfortunate combatants and victims. The very duration of the war, which should add to the horror, helps to dull the sensibilities of those not directly involved. What is there new to say about it? What point is there in saying anything, when whatever one says makes not the slightest difference?

Iraq's plight

Even a new Iranian offensive arouses little interest at first, having become a more or less regular seasonal event. A flurry of apprehension, perhaps, at the suggestion that Basra might fall, followed by a quick sigh of relief when American satellite intelligence reports that the city's main defences are still unbreached. Now, however, reports from the Iranian side of the front make it clear that Iraq's plight is more serious than it at first seemed.

Iranian morale, both at the front and behind it, is high. Iran is still exporting 1.7m to 1.8m barrels of oil per day—which gives her enough foreign exchange to pay for the weapons and other essential supplies she needs to keep the war going. This offensive may not, after all, be Iran's last desperate throw. It may be just one more turn of the screw that is slowly choking Iraq to death. The front moves only a few miles at a time, and at great human cost. But it moves always in the same direction; and the cost is one that Iran, with her much larger population and her cult of martyrdom, can better afford to pay than her opponent.

Sooner or later, if things go on this way, Iraq is going to crack, and Iran is going to win. What exactly that will mean for the region cannot be predicted. But it will certainly be bad for the West, and for pro-Western Arab regimes.

Utter folly

Iraq started the war, and is paying dearly for it. But it is only Iran that now insists on continuing it, refusing any peace terms that do not include the overthrow of the Iraqi regime. And Iran, fiercely independent though its leaders are, could not continue fighting as it does without finding foreign customers for its oil (in what ought to be a buyer's market), and above all without finding foreign arms suppliers willing to take Iranian money. Reports from Tehran now suggest that weapons and spare parts supplied by the US may have played a major role in Iran's latest advance.

The utter folly of those arms sales is now understood by almost everyone in Washington. The time is surely ripe for a new international effort to block further arms supplies to Iran, unless or until Iran agrees to a ceasefire on reasonable terms. There seems no reason why the Soviet Union should not co-operate in enforcing such an embargo, since Moscow is more heavily committed than the West to ensuring Iraq's survival, and is anxious to improve its relations with the Arab world at large. There are even signs that a chastened Syria may be willing to rejoin the Arab fold, now that Iranian troops are clearly occupying Arab territory.

An international embargo on arms deliveries to Iran would neither be certain of success nor free from risks. But to attempt it is surely better than to sit paralysed like a rabbit before a cobra, watching the war machine of the Islamic revolution grind slowly on.

The US takes aim at Airbus

NO SOONER have the US and the EEC averted a threatened trade war over American grain sales than Washington seems to be gunning for a fresh transatlantic dispute. The target is the European Airbus programme, which is to be discussed by a US delegation in visits to London, Paris and Bonn this week.

American complaints about allegedly excessive government subsidies for Airbus go back a long way. Last year alone, there were two sets of talks with the Europeans which led to uneasy compromises. Now, against a background of muffled retaliation threats, the US is saying that more concessions are needed to bring European practice into line with the spirit of the General Agreement on Tariffs and Trade.

Accusations denied

The timing of the US move appears to be influenced at least partly by lobbying by McDonnell Douglas, which is worried that its newly-launched MD-11 long-haul airliner will face stiff price competition from the A340 which Airbus wants to build. There have been US accusations, hotly denied by the Europeans, that Airbus is already offering A340s to MD-11 customers at uneconomically low prices.

It is not yet clear how far the US aim is to warn Airbus off the long-haul airliner market and how far it is to seek a more comprehensive "clarification" of the application of the Gatt code. Either way, bilateral arm-twisting of individual European governments, popular as it may be at home, seems unlikely to be a very productive tactic.

If the US really wants to tighten up the rules of international competition in the industry, it should properly take up the issue with the EEC in Gatt. There is much to be said for such an initiative, since the existing Gatt code on subsidies to commercial aircraft production is exceedingly vague.

However, such an approach would be unlikely to yield the quick results which the US apparently wants. Government support for the civil aircraft industry is a murky area. Any new agreement would have to take into account not only Airbus subsidies but also the role of defence spending, export credits and special tax concessions—all advantages from which US manufacturers benefit.

It is, in any case, arguable that Washington may be turning up the heat at precisely the wrong moment. For other events are already obliging Airbus' backers to adopt a harder-headed commercial attitude towards the future of the programme.

It is far from certain that the $2.5bn in launch aid for the A340 project and its planned A330 stablemate will be forthcoming. The A340, in particular looks an increasingly risky gamble on unproven technology which, at best, will not go on sale until two years after MD-11 deliveries begin.

The economics of Airbus have been further clouded by the continued sharp fall of the dollar. This is obviously of particular concern in Bonn and is likely to strengthen criticism of Airbus subsidies by the Free Democrats, who substantially increased their share of the vote at last month's elections.

The West German Government has been seeking, admittedly with little success so far, to persuade private industry to shoulder a bigger financial stake in Airbus. In the UK, privatisation of British Aerospace has already distanced the Government from direct involvement in the programme.

Fiscal realities

All these developments indicate that European Governments are far less disposed than US rhetoric suggests to write blank cheques for Airbus in the future. While political commitment to the programme as a rare example of successful European collaboration remains strong, it is increasingly bounded by fiscal realities.

Weaning Airbus off the public purse will not be easy. But the impressive number of international orders won by its new A320 aircraft shows that it can carve out a worthwhile niche in a fiercely competitive world market. That success should be viewed as a further reason to move the programme onto a commercial footing, not as an argument for still more subsidies.

US table-thumping and threats of trade retaliation which hardened European attitudes would do more harm than good. This is not the moment for Washington to pick a trade quarrel simply to appease domestic interests.

THE PHILIPPINES CONSTITUTIONAL REFERENDUM

Cory takes the people's test

By Richard Gourlay in Manila and Robin Pauley in London

THE PHILIPPINES people, who seem to spend their lives watching one crisis unfold after another, today face their most important day since Mrs Cory Aquino replaced Ferdinand Marcos as President.

Today Mrs Aquino is taking a long and complex new constitution to the people in a referendum. They are required to vote "Yes" or "No" on the entire document. A "Yes" vote is critical to Mrs Aquino's desire for political and social stability, as well as being an important vote of personal confidence—a vote confused, some critics say, with constitutional issues which might have been better left to the legislature.

The one plain clause is that which will confirm Mrs Aquino and her Vice-President in office, without election until June 30 1992. This is a controversial move for a President trying to restore democracy to a country previously ruled by martial law and dictatorship for Mrs Aquino was never elected President—rather, she was installed in office after a civilian-backed military revolt deposed Mr Marcos last February.

The army action followed what were widely perceived as rigged presidential elections which had returned Mr Marcos to power. According to the official, tainted results, Mrs Aquino had lost.

Today's referendum is essentially a nationwide opinion poll for Mrs Aquino, the widow of one of President Marcos's staunchest political opponents who was assassinated at Manila Airport on his return from exile in 1983. Time magazine's Woman of the Year, she rules one of the most complex and divided republics in the world, with 55m people spread across 7,000 separate islands.

It was clear from the moment Mrs Aquino was sworn in 11 months ago that she could never meet the hopes that were vested in her. That said, no one predicted the intensity of the political onslaught she faced within weeks of entering the Malacanang Palace.

She has had to juggle the demands of right-wing Marcos loyalists in the north, Communist leaders of a 17-year insurgency in the south, rival Moslem groups and a divided army which has plotted or attempted a coup d'etat on several occasions.

This turbulence would be daunting for a seasoned political warrior. But for a fledgling cutting her teeth on the job, it must at times seem insurmountable—particularly to someone who professes to be a reluctant President and who says she is not enjoying the position. She, no less than either her supporters or foreign observers, must sometimes find it remarkable that she is still there at all. Like a magic candle that will not blow out, she has appeared lost in the darkness of one crisis after another, only to emerge again, strengthened merely by the process of having survived.

Today's vote will provide the best indication yet of how the Philippine people assess Mrs Aquino's record. Her key achievement to date has been her success in outmanoeuvring military dissidents.

On November 23 last year she sacked Mr Juan Ponce Enrile, the Defence Minister and the man responsible, with General Fidel Ramos, Chief of Staff, for the switch of army support from Marcos to Aquino in February.

This was a high risk strategy. It gave Enrile—who opposed Mrs Aquino, and was allegedly involved in plots against her, partly because of her determination to compromise with the Communists—the freedom to lead an openly hostile campaign against her. He is today urging a "no" vote in the referendum.

But it enhanced her authority and helped bring about a ceasefire with the Communists. The ceasefire is still in force, but the rebel leaders have broken off peace talks with the Government because of the shooting of left-wing demonstrators by paramilitary police in Manila 10 days ago, and because they felt the Government was not negotiating in good faith.

It proved one of Mrs Aquino's worst weeks yet. The most serious right-wing coup attempt so far was mounted and although it failed, it raised important questions about continuing divisions in the army. In the same week her fragile bridges with the Communists and Moslem rebels seemed to be crumbling.

"The Government is buffeted from left and from right," complains a key presidential aide Mr Joker Arroyo. All sides detected an advantage from undermining Mrs Aquino and perhaps getting today's referendum postponed or cancelled.

Mrs Aquino has some important successes to her credit. Probably the most striking is a marked change in the tone of government. Both at home and abroad, the Philippines is now no longer seen as debilitated by the rampant corruption which characterised the Marcos years.

Mr Jaime Ongpin, the Finance Minister, still describes the public works and highways ministry as a "snake pit of corruption" and the country's Catholic leader, Jaime Cardinal Sin has warned against the return of graft among senior officials. There is clearly a lot more cleaning up to do, but Mrs Aquino's integrity on this score is not in doubt and the improvement is beyond question.

The lessening of corruption has also helped Mrs Aquino regain for her country the unequivocal backing of the US. Washington's key concern is the two US bases in the Philippines, critical for regional security. The fact that Mrs Aquino remains ambivalent in her attitude to the bases—she has given no commitment either to close or maintain them beyond 1991 when their leases expire—does not seem to have discouraged the US Administration, which is relieved at no longer being seen to be in harness with an ugly dictatorship.

Likewise, respect for Mrs Aquino has also brought help from the international financial community — banks have recently agreed to reschedule the country's substantial official debts.

This is not to say Mrs Aquino is without blemish. She has closed a newspaper critical of government policy, a move more akin to the style of her predecessor than to the image she has been trying to promote. Leaked tape recordings of some of her conversations also suggested a willingness to meddle with the constitution to her own advantage.

More important to most Filipinos than any of these things Mrs Aquino failed to move on the key issue of land reform, sparking demonstrations by peasant farmers, such as the one in which 15 were shot dead near the presidential palace last month.

About 90 per cent of land is owned by 10 per cent of Filipinos, many of whom act as almost feudal landlords. Most damagingly, Mrs Aquino has shown no sign of wanting to break up any of the large estates owned by her own family.

In the words of one left-wing activist: "Our best access point for politicisation (of peasants) is when there are land problems." Mrs Aquino's record on this sensitive issue is no better than Mr Marcos's and it is an area which she will have to tackle if she is to achieve the social reforms she says are her objective.

The Government has also been slow to implement an economic programme that would provide the 16,000 to 23,000 insurgents from various groups with a real alternative to staying holed up in the hills. There is no doubt that many would give up the struggle if they were offered the possibility of making a decent living.

In the hills north of Davao, for example, gold has been discovered, prompting some rebels to throw down their arms and take up gold pans, giving both temporary peace and a much-needed boost to the local economy.

But, even if Mrs Aquino were the saint many of her supporters think she is, she could not turn round the problems afflicting the Philippines in a year. This fact is widely recognised and, given her personal courage and popularity, she seems likely to command the two thirds "Yes" vote she wants when votes are counted during the next week.

She has criss-crossed the country campaigning for support. Mrs Edith Gonzales, a poor mother of six children in Davao City, sums up the feelings of many rural peasants — disappointed though they may be that their lot is not greatly improved: "After 20 years of Marcos we should give Cory a chance."

If the vote is "No," or close to it, Mrs Aquino is not expected to resign. But she will face further uncertainty, instability and clamour from the opposition for fresh presidential elections.

But what happens next if she does get the overwhelming vote of support which looks likely?

- First, key clauses of the new constitution will take effect. The country will have President Aquino and Vice President Salvador Laurel for six years. Constitutional guarantees will be entrenched which will prevent the president from declaring martial law.
- The Senate will be empowered to decide the fate of the US bases after the leases on them expire in 1991.
- The Philippines will move towards being a nuclear-free territory, which has implications for the use the US makes of the bases.
- Elections to the national legislature will be held in May, followed by local government elections, expected but not confirmed for August.

Mrs Aquino, then, faces four main issues. She must invigorate the economy and instil enough confidence to attract foreign investment to her country, which needs to promote growth sufficient to deal with a demographic explosion bringing 700,000 entrants to the job market each year. The country's economic problems are exacerbated by the fact that half of the population is under 17.

But her best efforts to relaunch the economy are likely to founder unless two other problems can be dealt with. The army must be brought to heel and united, which probably means moving gently to the right politically. The various extreme left rebel factions must be quashed or brought to peace. "Only radical change will relieve the need for armed conflict," Antonio Zumel, a communist rebel leader, has said. The fourth issue is land reform, without which left-wing insurgencies cannot be contained.

Faced with an agenda like this against the background of the past year's experience, it is scarcely surprising that Mrs Aquino is a reluctant president.

Men and Matters

Alert against Anglomania

THE last thing any French administration wants to preside over is the victory of "Franglais"—and the death of good French. Chirac's government is, of course, no exception.

Under his new budget law for 1987 every French ministry will have to reveal how much money it is spending on strengthening the French language.

The move is welcome news to Philippe de St Robert, head of a special watchdog commission set up three years ago by President Mitterrand to defend the French language.

Formerly a journalist on Le Monde, his task is to conquer what one paper has called "galloping Anglomania"—by which it means the widespread use of English words such as "le fast food" and "le chewing gum" in France.

St Robert is determined not to lose what many see as the battle being fought against English linguistic and cultural imperialism. He says "I'm not trying to organise a witch-hunt against Franglais—all I ask is that Frenchmen realise their language is worth defending."

Nevertheless, he faces widespread hostility and his powers are limited. His commission regularly dreams up new French words, which it hopes will make Frenchmen give up the offending Anglicisms.

The attempts are not always successful. "Le baladeur," which was intended to stamp out "Le Walkman," has failed to catch on. And "Le restanpouce," his answer to "Le fast food," has always been a dismal failure.

At least St Robert can count upon wide support among differing shades of French political opinion. In France defending the language is a cultural matter, not a political one.

"I'm a qualified engineer but I'd like to retrain as a stockbroker down south"

High flyers

London's legal eagles are learning some tricks from their City friends who have been so busy awarding themselves telephone number salaries in the name of Big Bang.

The latest lure for bright young lawyers is an instant partnership — a status which used to have to be long and hard-earned in the traditional London practices — as firms try to build up specialist legal expertise in niche areas.

Richards Butler, which ranks about 12th in the City pecking order of solicitors, and is currently discussing a merger with Cameron Markby, is appointing two new partners—Jeffrey Sherwood and Colin Thaine, both from Knapp-Fishers.

Together with David Beety, who joins as a consultant, they will bolster the aviation department offering legal services to manufacturers, airlines, and banks, on everything from aircraft financing to route licensing.

With the aircraft market estimated to be worth at least $200bn to the end of the decade, and with airlines increasingly content to be simple operators, leasing the equipment they fly, the new team expects to have plenty to keep it busy.

Paper tigers

Meanwhile, competition is also hotting up in the rarefied atmosphere of the legal press.

The current issue of the New Law Journal, one of a handful of papers serving the British legal profession contains a fine example of the art of putting the boot in to potential rivals.

"The nature of the market," says the Journal loftily, ". . . demands that materials, however lightened by humour, sarcasm, irony, or innuendo, have to be presented for consumption by a knowledgeable readership, often better informed on the issues of the day than those assembling them."

With magnanimity the Journal proceeds to welcome the impending birth of two "glossy" rivals, adding the rider "We hope they will not represent the triumph of optimism over experience in what is not an easy market."

Lifebelt

The proposed pressurised water reactor at Sizewell (estimated cost towards £2bn) is not just another job for Britain's process plant industry.

It is the industry's only lifebelt — well, so stockbrokers Savory Milln spell out in their new review of the British engineering industry.

Editor Sidney Rennert uses some vigorous, by City standards, language about Sizewell's importance to the future of British engineering.

"Britain's hard-pressed process plant industry (turnover around £3bn a year) is holding its breath as the current debate on PWR nuclear stations nears its climax. Sizewell represents the one bright prospect for a sector which is likely to see an 8 per cent downturn in UK business over the next three years.

"Big new chemical plants are out for the foreseeable future, as are steel mills. Oil and gas projects (particularly in the North Sea) have been cancelled or shelved, and even the latest rise in oil prices has not reversed the trend. Only food processing is enjoying good, stable business . . ."

He could suggest, "go, buy a farm" — if it wasn't for the common agricultural policy's latest constraints.

Stop watch

Working for GEC teaches you a lot about the hard-sell, Dr Derek Roberts, the group's technical chief, demonstrated the other day.

No, he was not offering a further comment on the Nimrod affair. Rather, he was fascinating a packed audience at the Royal Society of Arts on the use of electronics to control pain.

He talked about a device, rather like a wristwatch, which worked through the use of acupuncture needles to block pain signals. The wearer would simply punch a command into a miniature keyboard, and the microcircuitry would arrange a twiddle from the appropriate needle.

Dazzled by the thought of the international relief of pain—not to mention the sales possibilities—his audience held its breath.

"You see," said Roberts laconically, "I could sell a million of them before anyone discovered they didn't work."

Observer

Foreign Affairs

Reagan performs, Gorbachev reforms

By Ian Davidson

NO REASONABLE person can go along with the view that there *is* some kind of moral equivalence between the two superpowers. To be sure, the US may often appear clumsy, incoherent, bellicose, ignorant and naively ideological; yet on the whole, its political and moral values overlap to a remarkable extent with our own. By contrast, the other superpower is, on the record to date, expressly committed to a set of political and moral values which are both alien and hostile. Yet last week circumstances conspired to make it impossible *not* to compare and contrast these two great countries.

Last Tuesday in Washington, President Ronald Reagan delivered the annual State of the Union address to the combined houses of Congress. On the same day in Moscow, Mr Mikhail Gorbachev delivered a long policy speech to a plenary session of the Central Committee of the Soviet Communist Party. Both leaders dwelt on the fact that 1987 is an anniversary year: for Soviet citizens, the 70th since the Revolution, for the Americans, the 200th since the Constitution. But there all similarities ended.

The purpose of Mr Gorbachev's speech was to urge the case for reforming the Soviet politico-economic system — a reform which, he would have us believe, is as urgent as it is ambitious. It confirmed the by now familiar image of a leader who is earnest, modern and vigorous and anxious to improve the performance of the Soviet economy. The novelty was that, on this occasion, his proposals for the first time seemed to go beyond the realm of administrative toning-up, and to trespass daringly on the territory of genuine political reform.

It is one thing to sweep away the old, corrupt hangers-on of the Brezhnev era, to crack down on alcoholism and to introduce some genuine incentives for greater economic efficiency; but to propose that elections should in future be conducted on the basis of multiple candidacies and secret ballots looks like a reform of a different order. At the very least, it could be perceived by the old faithful as a rather profound attack on the power and the pecking-order of the party.

The contrast with the corresponding event on Capitol Hill could hardly have been more stark. President Reagan's speech recapitulated, in a series of one-liners, some of the familiar elements of his Administration's policies. But the manifest purpose of the performance was not so much to mobilise support for these policies as to project a reassuring image: reassurance that he had recovered from his recent operation, reassurance that he had recovered poise despite the Irangate scandal, reassurance that the Great Communicator can still win back his old popularity by looking good on the small screen.

In short, this was politics as entertainment and nothing more. The saccharine sentimentality of President Reagan's profession of faith in the greatness of America may well have appealed to the viewers in Middle America, but it is difficult to believe, after all that has happened in the past few weeks, that America can still be governed credibly on the basis of show-biz.

The text suggests that he has profoundly misjudged the situation, the make-up of the new Congress and his own position. His half-hearted reference to the Irangate scandal looks like making the worst of both worlds, neither tough enough to hearten his more hawkish supporters nor apologetic enough to undermine the attacks of his critics. And it is hard to imagine why he should think sentimentality would be a winning note to strike with a Congress which is controlled by his adversaries.

In short, Ronald Reagan shows little sign of being able or willing to deal with the most serious political crisis of his presidency. It is understandable that a man of his age should, after an operation, have a restricted attention span and need frequent naps; it is understandable that a man who spent his formative years as a performer should remain a performer. But it is not reassuring that a man with these disabilities should be the leader of the American superpower, especially since Irangate has revealed his disabilities to be much greater than we had previously guessed.

Weighing the significance of the Gorbachev speech is a less certain undertaking. During the first year after he came to power in March 1985, the conventional wisdom among foreign experts was that he was likely to be a moderniser but not a real reformer; he wanted to make the Soviet system work more efficiently; he wanted to stamp on corruption, theft, nepotism and other abuses; but he did not really want to change the system in any fundamental way.

But last week he almost seemed to be throwing caution to the winds. "As we talk about reorganisation and associated processes of deep-going democratisation of society, we mean *truly revolutionary* and comprehensive transformations in society. We need to make this decisive turn because we just do not have the choice of another way. We must not retreat and do not have anywhere to retreat to."

The reason why he has no other choice, as this and other recent speeches make clear, is that far too many of the beneficiaries of the old Soviet system are resisting modernisation.

No doubt he should have guessed from the beginning that there was no chance of bringing the mechanisms of the Soviet economy up to date without rather profound repercussions on the political system. Perhaps he should have known that the party *apparatchiks*, whose perks had largely insulated them from the planned inefficiencies of the system, would not gladly go over to the bracing uncertainties of a more competitive and less arbitrary environment. Or perhaps he did know these things and preferred to keep quiet about them until he had more thoroughly consolidated his position.

Either way, last week's speech represents a fundamental attack on the Soviet legacy. It is a *fundamental* attack because, while the most recent culprits for the present plight of the Soviet economy and Soviet society are identified in the speech as Leonid Brezhnev and his cronies in the 1970s and early 1980s, Gorbachev traces the root problems much further back.

"The theoretical concepts of socialism remained to a large extent at the level of the 1930s-1940s, when society had been tackling entirely different tasks . . . The further we go *with our reorganisation work*, the clearer its scope and significance become; more and more unresolved problems inherited from the past come out."

In other words, there have been fundamental flaws in the system which have their roots in Stalinism and, by implication, in authoritarianism. What makes this such a fundamental attack is that it implies at least a partial repudiation of the only system most Soviet citizens have ever known.

What is less clear is the calculation underlying this attack. Is it the confident declaration of a leader who now believes that he and his friends control enough of the strings of power to be able to *carry through a radical programme* of political reform? Or does it amount to a high-risk gamble, reluctantly undertaken by a man who has been forced to acknowledge that he cannot, after all, secure the economic modernisation required to keep the Soviet Union in the superpower league *without* embarking on the turbulent waters of political change?

By itself, the democratisation proposed by Gorbachev does not inevitably mean a very profound change in the system. The provision of a certain amount of choice between rival candidates for party-controlled jobs and the use of secret ballots should open things up if, but only if there is widespread support for a different kind of political culture.

The problem is that the people occupying the padded seats are products of the old political culture, that Russia has absolutely no tradition of democracy or pluralism, and that the top-down nature of the Soviet power structure may ensure that each tier will continue to be more respectful of the next tier up than eager to test the limits of the new freedom.

Moreover, the picture offered by Gorbachev goes beyond the simple adjustment of voting rules in party committees, and implies other changes which must be alarming to the beneficiaries of the *status quo*.

The first is accountability, which means not just the self-financing of enterprises but the election of managers. "The point at issue is one-man management. We think that elec*tiveness, far from undermining*, on the contrary enhances the authority of the leader." In other words, there will be no more safety in numbers.

The corollary is that "control from above" needs to be balanced by more effective "control from below." "Without developing democracy, without the broad participation of the working people, we will not be able to cope with the tasks involved in reorganisation."

That is a discovery which most western countries made many years ago. As President Reagan pointed out that same day: "Our revolution is the first to say the people are the *masters*, and *government* is their servant."

Mikhail Gorbachev does not go quite that far in a peroration that strikes an impressively civilised note. "We wish to turn our country into the model of a highly developed state, into a society with the most advanced economy, the broadest democracy, the most humane and lofty ethics, where the working man would feel that he is master. . . . And even sceptics would be forced to say 'Yes, Socialism is a system serving man, working for his benefit, in his social and economic interests, for his spiritual elevation.'"

Lombard

Old Masters, jobs and prices

By Samuel Brittan

THE MOST interesting attempt yet to rehabilitate the lump of labour fallacy—that there is only so much work to be done and that compulsory work-sharing is required to prevent unemployment—has come from an economics professor. It is contained in the 1986 Fred Hirsch Memorial Lecture given by Professor Tibor Scitovsky and reprinted in the current issue of *Lloyds Bank Review*. Scitovsky has not succeeded in my view in making the case for anti-libertarian measures, such as compulsory hours reduction or early retirement. But in his attempt to do so he has raised other interesting issues.

The standard view is that provided there is enough purchasing power, there can always be demand for the fruits of higher productivity; and that people can make their own decisions whether to enjoy their fruits in take-home pay or more *leisure, or some mixture of the* two. The more classical economists suppose that purchasing power will rise automatically—even if there are temporary fluctuations. Keynesians believe that demand may have to be helped by injecting more money into the economy — the advice which is now being showered on Japan and Germany.

Scitovsky queries this conclusion by bringing in "positional goods." This category was invented by Hirsch to cover a *great variety of desires—from* that to be more fashionably dressed than other people or to be awarded rare distinctions, to the search for places of undisturbed natural beauty or for Old Masters. What they have in common is that their supply cannot easily be increased. The search for them is nearly a zero sum game. The more I have of them, the less you do.

Scitovsky's argument is that after a certain level of affluence is reached, people will want to spend any extra income on such goods and hardly at all on the newly-produced goods and services which figure in GNP. Therefore their spending will not generate jobs, but simply *boost prices*—in many cases asset prices which do not appear in cost-of-living indices.

One can argue with the premises of the argument. There are still many people in London and New York—let alone the Third World—who could do with more to eat. There are, too, possibilities of substitution. The overcrowding of traditional beaches brings tourism to far-*out areas. As the price of Old* Masters rises, some demand gets diverted to modern art. There are devices such as evening and Sunday opening of galleries to make existing stocks go further.

Let us, however, forget all these qualifications and assume that there are only three ways of enjoying higher productivity: *newly* produced "GNP" goods, leisure, or "Old Masters"—a catch-all for all assets in fixed supply.

Scitovsky recognises that owners of Old Masters will be enriched as they sell them; but he assumes that they use the proceeds to get out of debt rather than to buy more newly produced goods. There must be some *limits* to this, however; and if the owners of Old Masters do not need to buy more goods at all, there seems no reason why they should continue to sell. In that case Old Master prices will rise towards infinity.

To put it another way: newly produced goods fall in price relative to Old Masters; and leisure becomes cheaper relative to newly produced goods. Normal economics would suggest a shift of demand both to newly produced goods and to *leisure of a voluntary kind*. The elasticity of demand *both* for newly produced goods *and* for leisure would have to be zero to produce the Scitovsky problem; and even then I am sure there are more libertarian answers than compulsory work-sharing.

The real problem is different. This is that assets in fixed or inelastic supply may well become important as living standards rise. These prices do not, however, figure in conventional consumer price indices, which *therefore understate the price* level as it appears to most citizens. Prices of "art objects" have, according to Scitovsky, been rising at 6 to 10 per cent per annum faster than the general inflation rate for the last 30 years. Price stability and "zero inflation" become more problematic goal as living standards rise.

Letters to the Editor

Development risks

From the Director-General, Council of Mechanical and Metal Trade Associations.

Sir, — *Organisations* representing the interests of consumers have been so active and vociferous in promoting the case for more stringent legislation concerning strict product liability that the position of British and European manufacturers (and as a result their customers) is not always fully understood.

The Consumer Protection Bill provides, inter alia, a regime of strict liability whereby those who suffer damage from defective products will be entitled to compensation from manufacturers without any need to prove that the manufacturer was at fault.

It is accepted that consumers need proper protection from defects that are preventable. The Bill however, places a great and unquantifiable burden on the manufacturer in making him liable for characteristics *or failings of his* products which may not be foreseeable at the time they are made. This will add enormously to a manufacturer's costs and inhibit research and development work unless there is an adequate safeguard. Such a safeguard is provided in the Bill and is known as development risk defence which relieves the manufacturer of liability for defects of which he could not have known in the light of the state of the art at the time of manufacture. The House of Lords voted in favour of this defence in the committee stage debate and the Bill now goes to the Commons.

It is quite illogical that consumers should expect safer products than are technically feasible at the time of manufacture. This would require the manufacturer to provide for the future unknown!

Firms would be reluctant to innovate products, particularly those involving high technology and materials, if they were thereby to risk exposing themselves to *subsequent defects* unforeseeable in the prevailing state of science and technology.

Without development risks defence our information is that innovative *enterprises would* only be able to obtain adequate cover at extortionate cost or perhaps not be able to obtain it at all.

Above all, development risk defence will avoid the bonanza of lawsuits brought by lawyers in the US, remunerated by a percentage of the winnings, that have *resulted in astronomic* monetary awards to individuals. This has been so devastating to particular sectors of industry there, that numbers of manu*facturers have* ceased to make products where insurance has been unobtainable, or substantially increased their selling prices where it has only been *obtainable at a vastly high* premium. The US Government is now considering whether legislative steps are necessary to bring the exposure of manufacturers within sensible proportions.

It would be a disaster for an already decimated British engineering industry if legislation were to be enacted here that would result in our repeating US experience. It is, of course, important to protect consumers against defects resulting from manufacturers' faults, but vital to maintain a reasonable balance and to restrict that protection to those factors within a manufacturer's control at the time of production.

Harry Hornsby,
8, Leicester Street, WC2.

Where properties are empty

From the Chairman, Housing Committee, Association of London Authorities.

Sir,—Before Mr Patten imposes stiff sanctions against local authorities which keep property empty and fail to collect rents (January 27) he should put his own house in order.

Nationally, 6.9 per cent of empty property (voids) belongs to the Government, whereas only 2.3 per cent belongs to local councils. And, as the Minister knows, last year councils in London reduced their voids by a dramatic 11.5 per cent. Not so in the private sector where voids went up by 3 per cent to a record 94,000.

As far as the collection of rents is concerned—arrears are not only a problem for local authority tenants. Over 11 per cent of the homeless in the country are so as a result of *not being able to pay their* mortgages.

Mr Patten says there is no need to build new homes. He claims that homelessness in *London could be solved if* councils used their empty properties. This is blatantly untrue. Most of the empty properties concerned are not of a suitable size for families or not in areas fit for children ie on main roads etc. The majority of empty stock is awaiting repair, undergoing repair or awaiting demolition.

I note with interest the comments made by John Patten about his readiness to continue increasing government funding for local authority housing maintenance. In fact the Government has consistently cut housing budgets in the last six years by a massive 75 per cent. *Just what increase is he* referring to?

Maurice Barnes.
Room 692, County Hall, SE1.

Scholarly, lucid and useful

From Professor G. Wood

Sir,—Having read (January 16) your short editorial on the Institute of Economic Affairs publication "Keynes's General Theory fifty years on," I awaited the arrival of my copy with little excitement. I expected a dull and sectarian volume, one rich perhaps in polemic but certainly poor in ideas and in analysis.

Your leader writer misled me. The essays are scholarly, lucid, and useful. There is a discussion by Leland Yeager of pre-General Theory attempts to construct "monetary disequilibrium theories" — theories which attempt *to explain sticky* wages and prices, and to analyse their consequences for the economy—and a careful linking of these early writings with modern developments of that approach. There is stimulating analysis by Milton Friedman of why Keynes's work proved so influential in the conduct of policy. There are studies of *Keynes's methodological legacy*; of the interaction between events of the 1930s and his theories; discussion of economic policy in Britain today; and more.

It is a short book from which few economists could learn nothing, and most readers would learn a great deal. Your leader writer should not con*fuse clarity of expression with* lack of content.

(Professor) Geoffrey Wood.
Centre for Banking and International Finance,
City University Business School,
Frobisher Crescent,
Barbican EC2.

Congestion at airports

From the Editor, Airports International

Sir,—Mr R. Powrie's conten*tion (January 27) that* congestion in the South East's airports could be met by further developing regional hubs and building up Stol (short take off and land*ing) services is in* no way the answer to the problem.

The growth of regional hubs like Birmingham and Glasgow is already happening, because the airlines want to fly there and the passengers want to travel there. Manipulating the market, as Mr Powrie would have the Civil Aviation Authority do, would not solve the problem and would be most inopportune at a time when more liberal bilateral agreements between European countries and a healthy measure of de-regulation are bringing down airfares and increasing services. What is more, the growth of the regionals is being complemented by the growth of traffic in the South East as well; the regionals are not growing at the expense of London's airports. The problem with Stol services is that in terms of air transport movements they are *highly inefficient*. A Boeing 747 can take over 400 passengers and counts as one air transport movement. Stol aircraft would be unlikely to take more than 100 passengers, which means that four air transport movements would be needed in a Stol operation for one widebody.

Airport congestion is not necessarily a problem of coping with peak movements; when bad weather hits and an airport is closed there has to be sufficient capacity for operations to continue safely nearby. Stolports would not meet this need. Only runways of 3,000 metres or more can sufficiently provide the back-up.

If passenger traffic continues *as at present the number of* international travellers will double within the next 18 years. If airports and air traffic control authorities worldwide are to cope they need more runways and larger aircraft with very high passenger load factors.

Philip Butterworth-Hayes.
31-33 High Street,
Carshalton, Surrey.

Incentive schemes

From Mr P. Murray.

Sir, — Your article of January 27 on performance-related incentive schemes examines closely the likely institutional reaction to the controversial *share option scheme proposed* for senior executives of the Burton Group. The background of Inland Revenue approvals for similar schemes sketched by the article potentially misrepresents, however, the much tighter restrictions on Revenue approved schemes.

In addition to the limit of four times earnings, there is a further limit on the value of options at the subscription price of £100,000 for any individual if the scheme is to secure Revenue approval.

Regardless of arguments whether schemes providing for prospective individual gains are genuinely necessary to motivate the senior executives concerned, it should at least be clear that at this level the beneficial tax provisions of Schedule 10 of the 1984 Finance Act do not apply.

P. E. Murray,
3 Old School House,
George Street,
Hemel Hempstead, Herts.

FINANCIAL TIMES
Monday February 2 1987

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Roderick Oram on Wall Street

Worries over yen for bonds

SHORTLY before 3am on Thursday and Friday, Tokyo time, a flurry of phone calls between dealing rooms in Kabuto-Cho and Wall Street will settle the anxious question of whether the Japanese will come to the US Treasury's quarterly bond auction.

The lead-up to auctions is always tense because billions of dollars ride on traders' last-minute judgment of investors' appetites. This time, the tension is heightened by the turmoil in the foreign exchange markets. Will the Japanese, prodigious bond buyers in recent years, overcome the fear of currency losses and return for more?

If they do not, other investors could suffer as prices fall to mop up the heavy supply of bonds. Dealers who misjudge Japanese intentions could take huge losses within hours of bids closing at 1pm Wednesday, New York time, for $9.75bn of 10-year bonds and a day late for $9.25bn of 30-year bonds.

The early warning signs from Tokyo last week were highly discouraging. Many big institutional investors, disturbed by the dollar's instability, said they had no intention of buying if it meant exposing themselves to further foreign exchange losses.

Life insurance companies, for example, estimated that Y4,000bn had been knocked off the value of their dollar-denominated investments since the industrialised countries' Plaza agreement triggered the dollar's slide 15 months ago.

To a large extent the Japanese are stuck with dollars. Most international trade is conducted in them. So Japan's record trade surpluses generate enormous piles of dollars which need investing. None the less, the painful devaluation has already prompted some change in investment patterns.

Since a peak early last year when they took two thirds of the Treasury bonds at each auction, the Japanese have been buying diminishing quantities. They have also diversified to a small extent into shorter-term US Treasury bonds, higher yielding US securities such as corporate bonds, junk bonds and equities and property to give a bigger cushion against further devaluation. But they have also switched some money into, for example, Australian and Canadian bonds and Japanese property.

Japanese investors are divided over whether the dollar is near bottom or has further to fall. They would be more confident if the US showed any commitment to the currency stabilisation agreement reached late last year by Mr James Baker, US Treasury Secretary, and Mr Kiichi Miyazawa, the Japanese Finance Minister. Instead, mistrust and anger has grown as Washington continues to talk the dollar down

Given the pain the low dollar/high yen has already inflicted on them, the Japanese seem ready to seize on any small sign that help is at hand. Thus, there were widespread reports in Japan last week that the US had intervened in foreign exchange markets to support the dollar. There was no evidence in the US of such an uncharacteristic action.

In more concrete terms, the dollar has recently bounced back several times from the Y150 level, most strongly last Friday on the unexpectedly big reduction in the US trade deficit even though the figures did not look quite so good on close scrutiny.

Some American analysts think US bonds remain a good investment for the Japanese. To some extent the foreign exchange losses of early bond buyers have been offset by capital gains as bond prices have risen roughly 20 per cent a year during the market's long rally. Since prices hit a plateau in the middle of last year, the dollar has fallen less than 10 per cent.

Moreover, US bonds continue to offer yields more than two percentage points greater than on Japanese bonds. Buying at today's exchange rates, investors would still break even if the dollar fell to Y124 in the next 10 years, calculates Mr Robert Brusca, chief New York economist of Nikko Securities.

The next few days will be crucial to restoring sufficient Japanese confidence in the dollar to encourage them at least to nibble at the bonds offered at the auction. Some help might come from tomorrow's release of December's US leading economic indicators. These are expected to show reasonable growth which might lengthen the odds on a cut in US interest rates and thus strengthen the dollar.

But even if a slightly firmer dollar does encourage some buying this week by those Japanese investors who are more trading-oriented, the longer-term outlook is becoming even less favourable. US economists are starting to forecast higher growth, inflation and interest rates which add up to an unattractive bond market.

Ivo Dawnay in Brasilia reports that many wild cards are in the political pack

Brazil's constitutional vacuum

WITH much pomp and ceremony, and honour guards in Napoleonic uniforms slowly baking in the sweltering high-plains sun, Brazil yesterday began the task of writing itself a new Constitution.

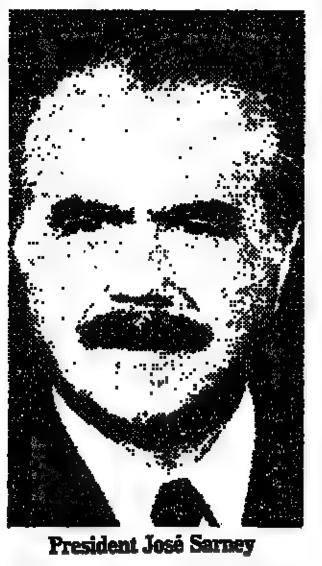
The process, while hardly rare in Latin America, is only the eighth attempt for Brazil since 1822 – as much a novelty, if you like, as a coronation in Britain and treated with much the same deferential respect.

Nevertheless, in among the dignatories' comings and goings, the greetings of *excellentissimo* and the solemn national anthem, were some onlookers who had witnessed or even drafted the previous, now discredited document for which yesterday's events were a cheerful funeral.

In a nationwide eve-of-Congress television address, President Jose Sarney called on the 559 Deputies and Senators entrusted with the work to break with Brazil's history of "institutional frustrations" and build a democratic monument on the scale of Britain's Magna Carta to survive "generations and generations."

Nobody is underestimating the difficulty of that task, particularly in the light of the eight-month-long constitutional vacuum that the drafting process is set to create.

As it is, the President is anxious that the congressmen elected last November should participate at once in the crucial search for a national consensus on tough measures to set right the economy, now foundering again under hyper-inflation.



President José Sarney

Given the extent of the problem and the difficulty of resolving it without recession or losses in real earnings, the congressmen are proving reluctant to get involved. Last week, deputies in the Brazilian Democratic Movement Party (PMDB) – the Government's dominant coalition partner – voted to abandon the legislative process for the duration.

They argued that, sitting with the Senate as the Constitutional Assembly, they should first complete the new institutional framework. The Senate, however, disagrees.

Added to this reluctance to legislate lies disquiet over the share out of jobs. Currently, Dr Ulysses Guimaraes, grand old man of the PMDB, is seeking the leadership of the Assembly, the party and the House of Deputies as well as a role as Vice-President of the Republic.

A rebellion is now underway to prise him out of one of these jobs. But what would seem a prosaic democratic election elsewhere is being interpreted as gross disloyalty by the old party establishment.

With the Congress now comprising 63 per cent new members and clear PMDB majorities in both houses, many wild cards are hidden in the political pack. Equally unknown are the new members' positions on such crucial questions as the length of the President's mandate or the choice between parliamentary or presidential forms of government.

Some politicians argue that, as the supreme authority, the assembly could, if it chose, dismiss the President tomorrow – a view strongly contested by others. Certainly, however, it could overrule any decree law that President Sarney might employ to adjust the economy.

Such political imponderables are only serving to increase the concern over the lack of a clear strategy on the country's drifting economy. "We have a legislature that doesn't want to legislate and an executive that refuses to propose," one cynical right-wing Senator said.

But, despite widespread public scepticism, there was the unmistakeably exuberant atmosphere in Brasilia yesterday of new politicians scenting for the first time the excitement and glory of office.

This was evident, not least among the Maia family, a microcosm of Brazil's Catholic ideological tastes whose representation in Congress is larger than that of five small political parties.

With seven family members elected, the Maias varying party affiliations stretch from Communist to ultra-right. All agreed, however, that they would work together unswervingly for the greater good of Brazil.

Aquino seeks clear victory in first public test of popularity

BY RICHARD GOURLAY IN MANILA

THE FILIPINO people go to the polls today to give their first verdict on President Corazon Aquino's 11-month rule of the troubled country since Mr Ferdinand Marcos was ousted.

They are voting in a referendum on complicated plans for a new constitution which will confirm Mrs Aquino, whose position has never been confirmed electorally, as legitimate leader of the country. A massive vote of approval in what has essentially become a test of personal popularity in a campaign akin to a presidential election should contribute to the return of political stability.

In the run up to today's referendum, Mrs Aquino has survived a month of intense pressure including riots which resulted in the death of 15 farmers demanding land reform, a military rebellion and attempted coup and the collapse of peace talks with Communist rebels.

Troops from 79 of the country's 81 battalions went on the top priority "red alert" yesterday to prevent any disturbances on voting day, a military spokesman said. The Government is most nervous about trouble in Moslem Mindanao in the south of the country, where violence between rival factions broke out last month.

During a hectic campaign throughout the country, Mrs Aquino largely avoided detailed discussion of the lengthy constitution document, stressing instead that a vote in favour of the charter was a vote for stability and for democracy.

Because the charter confirms the six-year term of Mrs Aquino and vice-president Mr Salvador Laurel, the campaign has resembled a presidential campaign and the result is seen, even by the Government, as a vote of confidence in Mrs Aquino.

Government officials believe that the new charter will be approved easily and believe a 60 per cent – 65 per cent vote in favour will be adequate to defuse any remaining doubts about Mrs Aquino's legitimacy. Election commissioner, Mr Ramon Felipe, said yesterday that he expected 80 per cent of the country's 25m registered voters to vote.

Mrs Aquino has said that if the constitution was rejected the country would revert to the so-called "Freedom Constitution" under which she has governed since March last year. Since then, she has ruled by presidential decree under this transitional charter but is generally thought not to have abused the dictatorial powers it invested in her.

Mrs Aquino abolished the existing constitution last March, a month after a military revolt and civilian uprising sent President Ferdinand Marcos into exile in Hawaii.

After abolishing the old constitution, Mrs Aquino appointed 45 church, business, military and labour representatives to a constitutional commission to draft the new charter.

The complicated charter provides for an American style bicameral system of government, stresses protection of human rights and safeguards against the imposition of martial law. It leaves the Senate to decide the future of two American military bases, considered crucial to western interests after the current lease expires in 1991.

However, if the charter is approved the country will adopt a policy of "Freedom From Nuclear Weapons In Its Territory," which could have serious implications for the future of the bases.

Opposition to the new constitution has centred on the provision confirming Mrs Aquino's six-year term.

The people's test, Page 18

UK buys gilts to reduce funding

By Janet Bush in London

THE BANK of England appears to have been buying unusually large amounts of gilt-edged stock recently in an attempt to get its funding programme back on course.

The British Government's policy is to fund the public sector borrowing requirement (PSBR) exactly. Gilt-market sources said that the Bank's recent activity appeared to indicate that the authorities had run significantly ahead of schedule on funding. The Bank appeared to be attempting to reduce the total of its funding so far.

The purchases could mean that the Bank was now working on the assumption that the PSBR would substantially undershoot its £7.1bn ($10.9bn) target and was correspondingly injecting cash back into the government bond market.

An undershoot on public borrowing this year would provide a favourable background to the announcement of tax cuts in the budget on March 17.

The sources said that the Bank had been active, at least since December, in buying in stocks due shortly for redemption. This practice is not irregular and forms part of the Bank's usual market operations.

It was believed, however, that the Bank had not confined itself to buying these sort of stocks but had been active in purchasing a wide range of issues with a particular concentration in the short-dated end of the market with maturities up to five years.

One source commented that the Bank had not been "that choosy" about the maturities of the issues which it was purchasing and that it had been "hoovering up stock". It was estimated the amount involved could be several hundred million pounds.

This activity is consistent with official operations in the gilt market when there is a heavily overfunded position.

At the end of December, Bank of England figures show that it had overfunded the PSBR by about £1.5bn.

The cumulative PSBR in the nine months of the current fiscal year up to December was £4.5bn. In the last three months of the year, the Government receives the bulk of taxation receipts

International capital markets, Page 22

New attack on UK stockbroker

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

THE POLITICAL attack on recent City of London scandals, especially the Guinness affair, has been renewed by leaders of the SPD/Liberal Alliance.

Mr Ian Wrigglesworth, the Alliance trade and industry spokesman, yesterday criticised Cazenove for its role as stockbrokers to Guinness, the drinks and leisure group, in its takeover of Distillers, the drinks group.

The criticism followed a public appeal on Saturday for funds from the City of London and business by Mr John Pardoe, a former Liberal MP and now an Alliance strategist, at the end of an enthusiastic rally of 2,500 Alliance activists at the Barbican centre in London.

After last year's split, Mr David Steel, the Liberal leader, highlighted the unity theme in arguing "let no Tory or socialists think they can divide us before, during or after the election."

Uncertainty about an early election has, however, been increased by a further opinion poll putting the Tories and Labour neck-and-neck.

A Mori survey in the Sunday Times newspaper put the Tories at 39 per cent, Labour at 38 per cent and the Alliance at 21 per cent.

At the Barbican Mr Steel highlighted the large contributions made by financial groups to the Conservative Party. He argued that "until the current scandals have been cleared up and a proper regulatory framework has been agreed, the prime minister, Mrs Thatcher, should not accept donations from the City."

There is some embarrassment in the Alliance at the contrast between the attacks on the City and the appeal to it for funds. In defence, it is argued that hardly any money is raised from specifically financial groups and anyway the Government, not the Alliance, is responsible for currently regulating the City.

However, there have been contacts between the Alliance leaders and City institutions, partly to seek support, and some money has been given by insurance companies. No specific appeal to the City is immediately planned.

Mr Wrigglesworth said it was "quite unacceptable" that no one at Cazenove accepted any responsibility for what had happened in the Guinness affair.

Last Thursday Cazenove issued a statement based on an investigation by a firm of solicitors stating that no evidence had been produced that the brokers were "involved in, or aware of, any illegality."

Mr Wrigglesworth said Cazenove were "regarded as one of the most influential and blue-blooded of brokers and they have the autocratic manner that goes with it. One of the things they should have learned on the playing fields at Eton, is that those who wish to lead must be whiter than white and never allow any suspicion that they have anything other than the highest standards."

● The Metropolitan Police said yesterday that the Fraud Squad had not been approached by the Department of Trade and Industry to join the investigation of Guinness and that there had been no informal meeting with the DTI and the Fraud Squad. No senior Fraud Squad officers were reading reports connected with Guinness.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	11	52	Dubrovnik	F	9	48	Malta	F	15	59	Rhodes	S	18	64
Algiers	C	17	63	Edinburgh	F	-1	30	Manchester	S	5	41	Rio de J'o	C	24	75
Amsterdam	S	0	32	Faro	-	—	—	Manila	S	31	88	Rome	S	9	48
Athens	R	11	52	Florence	S	5	41	Melbourne	S	19	66	Salzburg	S	-5	23
Bahrain	S	23	73	Frankfurt	S	-4	25	Mexico City	C	24	75	San Francisco	C	17	63
Bangkok	S	33	91	Funchal	S	18	64	Miami	C	23	73	Seoul	S	-1	30
Barcelona	S	13	55	Geneva	C	-1	30	Milan	S	-1	30	Singapore	C	30	86
Beirut	S	20	68	Gibraltar	S	16	61	Montreal	-	—	—	Stockholm	S	-1	30
Belfast	C	6	43	Glasgow	C	-2	28	Moscow	C	-1	30	Strasbourg	C	-7	19
Belgrade	C	-8	18	Guernsey	F	5	41	Munich	S	-8	18	Sydney	S	25	77
Berlin	S	-5	23	Helsinki	S	-3	27	Nairobi	-	—	—	Taipei	S	18	64
Biarritz	S	13	55	H. Kong	C	17	63	Naples	S	15	59	Tangier	F	18	64
Bombay	S	34	93	Innsbruck	S	-4	25	Nassau	-	—	—	Tel Aviv	S	29	84
Bordeaux	S	11	52	Inverness	S	4	39	New Delhi	S	22	72	Tenerife	S	20	68
Brussels	S	1	34	Islamabad	S	26	79	New York	-	—	—	Tokyo	S	7	45
Budapest	S	-7	19	Istanbul	R	5	41	Nice	S	12	54	Toronto	-	—	—
B. Aires	-	—	—	Jakarta	R	30	86	Nicosia	-	—	—	Tunis	C	12	54
Cairo	S	31	88	Jersey	F	4	39	Oporto	-	—	—	Valencia	S	17	63
Cape Town	F	26	79	Jo'burg	F	28	82	Oslo	F	-6	21	Venice	S	2	36
Caracas	C	24	75	Lima	C	26	79	Paris	S	0	32	Vienna	S	-12	10
Casablanca	S	18	64	Lisbon	C	15	59	Peking	S	3	37	Warsaw	C	-3	27
Chicago	S	1	34	London	S	3	37	Prague	S	-8	18	Washington	S	-1	30
Cologne		—	—	Los Angeles	S	20	68	Reykjavik	C	7	45	Zurich	C	-7	19
Copenhagen	S	2	36	Luxembourg	S	-4	25								
Corfu	R	12	54	Madrid	C	10	50								
Dallas	-	—	—	Majorca	F	14	57								
Dublin	C	6	43	Malaga	F	15	59								

Readings at mid-day yesterday
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Raid on BBC attacked

Continued from Page 1

middle of the night to assist police to identify such things as clips which had been edited from the series of programmes.

Mr Alan Protheroe, assistant director general of the BBC, who went to Glasgow on Saturday night after the raid began, said last night that the BBC had to accept as a matter of principle that a warrant was lawful until it was proved unlawful.

But he added: "The BBC will now wish to consider the fine legal and constitutional issue, which in broad terms, resolves itself into whether the courts should in future define how precise warrants of this nature should be." The issue was not for the BBC alone, Mr Protheroe said.

"The on-again, off-again, on-again, police raid on BBC headquarters in Glasgow looks like a bungling farce," Mr Gerald Kaufman, shadow Home Secretary, said in Stafford. "But in fact it is a major menace to civil liberties and freedom of speech in Britain.

Dr David Owen, Social Democratic Party leader, said that "the state is not allowed to go on a fishing expedition. The state is answerable to the rule of law."

Robin Reeves writes: The banned BBC programme played to packed houses in Cardiff on Saturday night, the first public showing in Britain. The three screenings, before a total of more than 300 people, took place in a Welsh language club

THE LEX COLUMN

Malthus haunts the markets

While the world's equity markets (apart from Germany) are skipping through new records virtually every week, it may seem churlish to examine the gathering demographic clouds which threaten terminally to engulf those markets somewhere around 2020.

None the less, a bull market – indeed any equity market able to raise new capital – depends upon a healthy flow of new demand for equities. On current trends that demand starts to run out early next century.

It seems only a few years ago that analysts in the UK were wondering where the great riches accumulated by pension funds would find a home; between now and the end of the century attention may switch to estimating when institutions will become net sellers of shares and who, if anyone, is going to step into the breach.

Demography

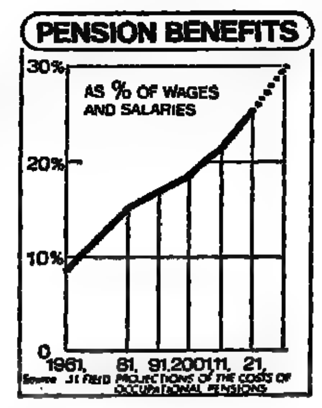
The demographic problem is easily stated. UK government statistics estimate that the number of people of pension age will increase from 9.9m in 1984 to 12.5m in 2025 while the working population stays almost static. Put another way, the ratio of pension contributors to beneficiaries falls from 2.3 in 1984 to 1.8 in 2025.

A 30 per cent increase in the number of pensioners will place the entire flow of personal savings under pressure sometime between 2010 and 2020, and institutional cash flow into the equity market could be particularly vulnerable.

About two thirds of annual personal sector saving is now channelled into life assurance and pension funds which together own about half of all ordinary shares quoted on the stock market.

According to Phillips & Drew the total cash flow (contributions and investment income minus benefit outflow) of UK pension funds and life companies was £18bn in 1985 and will rise to £5.2bn in 1986 and £21bn in 1987. Out of those sums £5.7bn was directed into new UK equities in 1985, and it will rise to £7.5bn in 1986 and £8bn in 1987.

That accounted for 53 per cent of company and government new issues in 1985 and should eat up 70 per cent in 1987. So, unless the institutional presence in the market is maintained (or substituted), the UK market would quite quickly become merely a secondary market of



Source: JS Field projections of the costs of occupational pensions

declining value. External company financing, if possible at all, might revert entirely to the banking system.

There is no consensus among actuaries or economists as to when the funded occupational pension schemes – most of which began life in the 1960s and 1970s – will strike a balance between income and outflow.

Several older schemes in the UK (and many more in the US) have already seen benefit payments outstrip contributions, but the funds are so well padded by investment income, which has shot up in recent years, that they have not had to contemplate cutting into capital.

Unilever UK, for example, now receives contributions of £40m a year against benefit payments of £60m, but in 1986 the outflow was covered by investment income of £90m.

Holidays

Nevertheless, new cash flow as a proportion of total pension fund assets has been steadily declining from a peak of 22 per cent in 1975 to less than 6 per cent in 1986. That is partly because the value of the funds has grown so rapidly, but the real drain on cash flow could be exacerbated by several factors well in advance of the next century. P & D calculate that last year's cash flow to assets figure would have been as high as 10 per cent if there had been no pension fund holidays.

Such holidays will make even more impact when the Government's 5 per cent limit on surplus assets over liabilities comes into effect while the trend towards earlier and longer retirement, higher benefits, and indexation is hardly going to staunch the outflow. Moreover, the Government's attempts to shift more people out of Serps and into funded schemes, because of its own financing worries, could be just handing the future problem from gilts to equities.

But there is a hint of Malthusian logic in these prophecies of Armageddon for the equity which suggest that something – if not a sudden burst of fertility – will turn up. Indeed, something may be at hand in the shape of £80bn in overseas portfolio investment.

It is as open to pension funds to run down these assets as their UK equity holdings; the London market is not necessarily doomed by growth in the army of UK pensioners. Yet the likelihood is that fund managers will do some of each: prudence suggests that a greying population should have some of its savings invested in younger, more productive economies. And this applies to Japanese pension funds as much as British ones.

Could the pensioners themselves plug the gap by recycling their savings back into equities? It is true that in aggregate pensioners will be richer than ever before, but why risk equities when they can tuck the money away in a building society or annuity (in effect government bonds)?

Redemption

If the institutional and personal sectors are to reverse their current buying and selling roles in equities governments will have to ease the handover. PEP's may be a start and, come 2015, the real benefit of this Government's popularisation of the equity may become apparent.

A simpler drag on the equity demand gap is likely to come from a higher rate of saving from those continuing to make contributions. Even without such a higher savings rate a continuing growth in earnings will automatically boost contributions, thus swelling funds in the medium-term as the increased contributions do not immediately feed through into higher benefits.

But perhaps the problem will right itself at the supply end. GEC's buying in of its own shares may not greatly have benefited its own shareholders, but if equity redemption ever catches on – as in the US – it could prove most statesmanlike. And selective nationalisation (or renationalisation) might always return to save capitalism.

SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Monday February 2 1987

INTERNATIONAL BONDS

Currency warrants create excitement as dollar picks up

SOME EUROBOND new issuing houses temporarily abandoned launching ordinary bonds towards the end of the week and diversified into currency warrants instead, writes **Clare Pearson in London.**

They found they elicited much more excitement from investors – transfixed by the twists and turns of the dollar – than Eurobonds have been doing lately.

The end of week improvement in the dollar, expecially after better-than-expected US trade figures had been announced, provided the spur to the issues, which were all designed for those anticipating a firming of the dollar.

The warrants were directed at two pockets of demand that could not be satisfied by the options market: retail investors lacking access to the professional market and institutional investors seeking a more liquid alternative to customised longer-dated currency options.

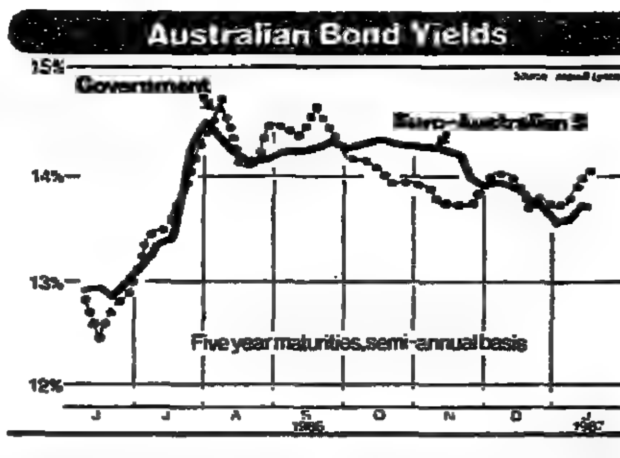
The flurry of issues on Friday took its cue from a mid-week bond issue in the D-Mark market for Council of Europe, which came equipped with warrants providing a three-year option to purchase $500 at an exchange rate of DM 1.78. The dollar quickly moved above this level, and small investors rushed to purchase the deal.

Morgan Stanley followed the example of this issue with a $100m bond with warrants for Scandinavian Airline Systems. But unlike the Council of Europe's offering, the lead-manager said this one was aimed primarily at institutional investors.

Morgan Guaranty, on the other hand, had its eyes fixed firmly on retail Swiss investors with an issue for Kansallis-Osake-Pankki of 400,000 two-year warrants on their own to buy $500. This issue was based on the dollar/Swiss franc exchange rate, and unlike the others it was pitched at a rate above that prevailing at the time of issue, at a cost of $36 per warrant.

Banque Paribas and Banque Indosuez followed up these deals with three and two-year warrants on their own based on the dollar/D-Mark exchange rate. Indosuez 200,000 warrants, priced at $50, buy $500 at an exchange rate of DM 1.79. Paribas' issue invites investors to buy 100,000 warrants at an up-front cost of DM 165 a piece which give the right to purchase $1,000. The exchange rate will be set on Wednesday.

Judging by the deals that were launched early enough on Friday to provide indications of demand, these warrants are just what investors are looking for. Nevertheless, syndicate managers were left wondering whether there are enough speculators around to justify many more such deals.



They certainly provided a means of generating some action while nervousness about the currency markets was keeping the Eurodollar bond market in a state almost of suspended animation last week.

A few of the best quality issues rallied slightly, but generally Eurodollar prices were barely changed in thin trading. Since prices in the US Treasury bond market moved downwards, yield margins tended to narrow.

The nervous calm in the secondary market, and the current difficulty of arranging swaps out of dollar issues, meant that new issue managers continued to concentrate on the currency sectors.

One of the most successful deals was an Ecu 350m bond for the EEC, which unlike most Ecu issues in recent months evoked demand from European as well as Japanese investors.

The attractiveness of the issuer's name meant that this deal was a poor indication of interest in Ecus in general. On the other hand, some dealers said that European investors were beginning to be persuaded once more of the appeal of the sector.

This, they said, was because yield differentials against D-Mark bonds were nearing their historic highs while any firming of the dollar – since it would relieve the pressure from the D-Mark on the weaker currencies within the European Monetary System – could open up the prospect of lower interest rates in Europe.

The Australian dollar market, which has seen an unusually high number of new bonds this year, was looking less healthy. Dealers said that the Australian dollar's decline against the D-Mark had led to a suspension of orders from German retail clients who are usually key buyers in this market. At the same time, underwriters were becoming increasingly nervous as payment dates on many of the recent issues were approaching.

Most of the week's new issues traded at levels outside their total fees, with the A$40m bond for Landesbank Rheinland-Pfalz quoted at a bid price as low as 3½ points below issue price.

LTV lifts income before charges

By William Hall in New York

LTV, the second-biggest US steelmaker, almost doubled its pre-tax, pre-interest operating income to $171.9m in 1986 but reported a net loss of $3.25bn, or $35.41 a share, for the year mainly because of special charges associated with its bankruptcy filing last July.

The group reported fourth-quarter income of $146.6m before provision for Chapter 11 non-cash special charges of $600m. The latest charges recognise potential claims which may arise during LTV's Chapter 11 proceedings from the rejection of executory arrangements, such as leases and take-or-pay contracts, which the company considers burdensome or non-essential.

The latest figures reflect an improvement in the group's troubled steelmaking operations which precipitated the bankruptcy filing. The steel operations had operating income of $130.5m in the final quarter of 1986 compared with an operating loss of $50.7m in the same period of 1985.

The improvement resulted primarily from reduced raw material costs due to not taking coal and ore under certain pre-Chapter 11 purchase contracts.

The long strike at US Steel, the biggest US steelmaker, helped the company in the final quarter but was not sufficient to stem a 14 per cent decline in shipments to 2.3m tons which the company blames on weakening domestic demand and continuing high levels of imports. The group's steel mills were operating at 62 per cent of capacity in the final quarter.

LTV's profitable aerospace operations reported fourth-quarter operating income of $38.5m compared with $47.5m in the same period of 1985.

The group's energy products had a $5m operating loss in the final quarter compared with a $1.2m loss in the same period of 1985.

Case for credit ratings grows in new sterling commercial paper market

WHEN JANUARY'S figures for sterling commercial paper issuance are published, they are unlikely to show a significant increase from the December total, which dropped from November, writes **Alexander Nicoll in London.**

But two months of consolidation do not indicate that the new market is faltering.

The bankers who have been zealously promoting sterling CP since it was first issued last May were unruffled by the December data from the Bank of England. The fall in outstandings from £700m at the end of November to £527m at the end of the year reflected a run-off of paper issued in October and November. Those months had seen gross issues of £486m and £620m, respectively, a much faster pace than previously.

With a longer Christmas break than usual – in some markets, it seems to be continuing still – December was only half a month in terms of issuing activity. Gross issues totalled £368m.

Borrowers did not want to swell balance sheets with borrowings over the year-end and in any case could get much cheaper money through the acceptances market, at a time when the Bank of England was supplying substantial liquidity to the money markets through purchases of bills. Investors preferred to take advantage of seasonally high short-term money market rates.

In January, retailers – which have been among the sector's most active issuers – have turned cash-rich after Christmas and so are unlikely to have issued much commercial paper. And the bill market remained a cheap source of funds.

Nevertheless, there has been a flurry of mandates for new programmes. Lucas Industries, with a £117m multi-option facility, on Friday joined the list of UK borrowers which appointed dealers in January for commercial paper programmes totalling a potential £867m. Others included C. H. Beazer, Blue Circle, British Printing & Communication, H. P. Bulmer, Electronic Rentals, Ratners and Woolworth.

Treasurers like the flexibility of commercial paper, even though rates in the bill market must often be hard to refuse. Although precise information is not available, regular issuers among the 25 borrowers which had tapped the market up to the end of 1986 appear to have included Unigate, Allied Lyons (a special case because it issues through a tender panel), BTR, Dixons, Storehouse, Asda, BET, Redland, Thorn EMI, Commercial Union and Royal Insurance.

The worrying aspect of the official data is the amount of paper held by the monetary sector – in other words, held by banks either as investments, or because they lack the investor base to which they can sell the paper, or (perhaps the same thing) as dealers' inventory. Paper held by the monetary sector fell £141m during December to £121m. Yet this still represented nearly a quarter of the total market. Some would say this underestimates the amount which has failed to reach the hands of true end-investors.

The accepted view of commercial paper markets is that they will not survive unless dealers develop solid end-investor bases. The situation is not as clear-cut as that: some sterling CP issuers, for example, are lesser-rated credits selling paper yielding above London interbank offered rates (Libor), and thus could be seen as appropriate investments for banks.

Despite the pious protestations of many dealers that they never hold a single piece of paper on their books, however, the figures suggest there has been a certain amount of buying market share. Nevertheless, they do have growing lists of investors, including companies. In the long run, poor placement will be reflected in the rates which borrowers pay.

These have stabilised. Good names with the best credit ratings tend to pay between interbank bid rates (Libid) and the bid/offered mean (Limean). Good names without credit ratings pay between Limean and Libor. Lesser-known names pay above Libor. It is likely that only a very few issuers will be able to pay below Libid, since investors in the UK do not have the aversion to bank deposits seen in the US.

As more issuers come to market, the arguments for borrowers to seek credit ratings will strengthen. Yield differentials will become more pronounced, and investors seeking a steady supply of paper will no longer be able to pick just the names they know well.

Some borrowers find it difficult to justify the cost of obtaining a rating just to support a small and irregular amount of commercial paper. It will be easier to pay the fees if they are considering a broader range of international borrowings.

That, indeed, may be the key to the future of the sterling CP market. Rather than a sector which will take over from all other funding sources, it should be seen simply as one of a range of alternatives in a world where a personal computer can constantly compare rates. To build on the base established so far, sterling CP needs further steady expansion in volume of issues, particularly by top-rated names who can provide a constant core of liquidity.

In a Eurocredit market where each new deal currently has scarcity value, Sonatrach, Algeria's state oil company, has mandated Lloyds Merchant Bank for a £75m bankers acceptances facility, the terms of which show Algeria accepting another marginal lightening of terms.

On the five-year facility, Sonatrach will pay a 62.5 basis point commission on acceptances of three months' maturity, rising to 70 basis points for maturities up to six months. There is a commitment fee of ⅛ point on undrawn balances, and front-end fees ranging down from 87.5 basis points for £7.5m commitments.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,685.4	–	1,616.4	3,752.5
Prev	1,685.3	–	24.2	4,708.5
Other	3,383.5	142.2	–	256.2
Prev	801.5	3.5	–	216.5
Secondary Market				
US$	26,308.7	1,722.2	22,848.1	6,882.2
Prev	20,349.9	1,589.2	16,415.5	6,946.4
Other	16,316.7	315.9	3,249.6	10,822.4
Prev	19,374.2	332.7	3,133.4	9,074.2

	Cedel	Euroclear	Total
US$	16,708.7	48,986.8	65,695.5
Prev	13,612.0	38,385.0	51,997.0
Other	13,451.7	23,152.8	36,604.5
Prev	13,748.8	19,207.2	32,956.0

Week to Jan. 29, 1987 Source: AIBD

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Government retreats into pre-Budget purdah

IN TERMS of price movements, the gilt-edged market had a very dull time last week. But, as the Government retreats further and further behind its pre-Budget purdah, there have been some fascinating indicators of what might be going on behind the scenes.

On Tuesday, the Government announced it was taking the first tranche of the British Gas loan this financial year, effectively knocking £750m off the Public Sector Borrowing Requirement.

Given that talk of a £5bn PSBR was beginning to have an air of over-modesty about it; it had been assumed that the Government would use the loan next year as extra leeway for cutting taxes or to cover for possible overruns on spending.

The Treasury had been attempting to dampen down optimism about a substantial undershoot of this year's PSBR target. It is emphasising revenue features such as payments of composite rate tax by building societies which are now spread over the full year instead of being bunched into the final quarter.

It certainly serves to be cautious in making predictions for the full-year PSBR with the last three months to go. But to conclude from the Gas decision that there is official concern about even hitting the PSBR target flies in the face of evidence which suggests that January will be another bumper month for tax receipts. Indeed, Treasury officials openly admit that the PSBR could be heading for an undershoot.

It is also believed that the Treasury has been shifting revenue into next fiscal year and bringing expenditure forward into this year, another sign of a comfortable position on this year's PSBR.

In addition, there is some evidence that the Bank of England has been buying in more gilt-edged stock than is usual at this time of year and that the purchases have not necessarily been confined to issues shortly due for redemption. One obvious conclusion must be that the Bank is trying to cut its over-funded position, which stood at around £1.5bn at the end of December.

The Bank's purchases appear to have been concentrated in the short end of the market, which could go some ways towards explaining the relatively good performance of shorts compared with the long-dated sector recently.

There is no doubt that the funding position is very comfortable. Despite a relatively healthy market, the Government Broker has not tapped the market for the past two Fridays, even on a partly-paid basis.

The question is how much buying-in there has been—one house put at several hundred millions—and whether this can be taken as an indication that the PSBR will turn out even lower than market forecasts and the Bank's own internal planning projections.

Whatever the truth of the matter, all this suggests that the British Gas decision is nothing more than a red herring and does not point to difficulties with this year's PSBR. Treasury officials describe the decision as "adminisrative."

One possibility could be that the trend of revenues next year is buoyant enough to justify substantial tax cuts—£2bn may turn out to be a minimum—without jeopardsing the PSBR.

If this is how the Treasury sees things, there was no pressing case for leaving the British Gas loan until next year. Indeed, the extra cash now could mear a very good PSBR this year. What better background for the Chancellor to point to when announcing his give-aways?

It also appears that the trend in MO growth may be turning round just in time to leave the Chancellor's hand free if he wants to cut base rates as the icing on the cake.

Although there is some difficulty in sorting out the complications of unadjusted and seasonally-adjusted money supply data, it appears possible that MO's growth fell sharply in January.

Greenwell Montagu estimates that, on a seasonally-adjusted basis, the 12-month growth rate of MO fell from 5.4 per cent to 5.0 per cent but the unadjusted 12-month rate is forecast to have fallen from 5.2 per cent to 4 per cent and this is the figure which will appear in the Bank of England's January Press release.

Janet Bush

US MONEY AND CREDIT

Markets firm ahead of refunding

THE recent gyrations in the foreign exchange markets must be making many traditional foreign investors in US bonds decidedly uneasy, yet the US credit markets have remained surprisingly firm ahead of this week's quarterly Treasury refunding.

The dollar fell sharply, touching a seven-year low of DM 1.7680 at mid-week, amid continued confusion about whether the US authorities were trying to talk the currency still lower. It began to recover following reports that the US and Japanese central banks had been intervening to stem the slide, and talk of a possible emergency G5 meeting. Finally, the release on Friday of the latest US trade figures, showing a trade deficit of $10.66bn in December — smaller than expected — fuelled a sharp end-week rally in the dollar's fortunes.

At the shorter end of the market, interest rates rose towards the end of the week and by Friday six-month Treasury bills were yielding ½ point more than a week earlier. However, the prices of longer-dated issues hardly moved and the benchwark US Government long bond finished the week yielding a shade below 7.5 per cent.

The fate of the dollar continues to unsettle the market and traders are nervously awaiting the outcome of this week's Treasury auctions. Concern about the level of Japanese investors' demand for paper overshadowed other events last week such as President Reagan's State of the Union speech and the 0.9 per cent rise in December durable goods orders.

In the "junk" (below investment grade) sector of the corporate bond market there were further signs of a healthy appetite for double-digit yields. First Boston was able to increase the size of a 10-year senior note issue for Mitchell Energy and Development by $50m to $250m, making it the biggest so far this year. The issue, rated Ba-2 by Moody's, carried an 11½ per cent coupon and was priced at par.

Meanwhile, there is considerable interest in the type of securities which the troubled BankAmerica plans to issue as part of its strategy to defeat the unwelcome takeover bid from First Interstate. BankAmerica, which has lost $855m over the past two years, filed a $1bn shelf registration last week but gave little indication of the type of securities it plans to offer. Salomon Brothers has been given the task of trying to find buyers for the paper.

Elsewhere in the "troubled bank patch," Moody's downgraded First City Bancorporation, a Houston bank which lost $402m in 1986. Its senior debt rating was lowered from B3 to Caa.

At the quality end of the corporate debt market, Toys "R" Us made its debut with a $100m issue of 8½ per cent 30 year sinking fund debentures. The issue, rated Aa3 by Moody's, was brought to the market by Salomon Brothers and priced at 97.80 to yield 8.47 per cent—a mere 85 basis points above the comparable Treasury issue. Smith Barney says that this was the first issue for the company and it sold well, reflecting a strong market for high-quality issues.

* * *

The following economic and financial data is due for release this week, along with the median market expectations, as surveyed on Friday by Money Market Services of Redwood City, California:

● The index of leading economic indicators for December (8.30 am EST Tuesday) is estimated to have risen by 1.4 per cent, slightly more than the 1.2 per cent increase in November and considerably more than the 0.5 per cent in October. Estimates range from a rise of 0.5 per cent to plus 2.2 per cent.

● The Treasury's quarterly refunding starts on Tuesday with the auction of $10bn of three-year notes, followed by Wednesday's sale of $9.75bn of 10-year notes and Thursday's sale of $9.25bn of 30-year bonds. The results are announced by the US Treasury at 4.0 pm EST on the day of each auction.

At the November refunding, the $8.75bn of three-year notes were sold at an average yield of 6.375 per cent, the $7.0bn of 10-year notes at 7.25 per cent and the $6.75bn of 30-year notes at 7.5 per cent. The average yield of the 10-year notes in the current auction is expected to be 7.18 per cent, with estimates ranging from 7.05 per cent to 7.35 per cent. The average yield on the 30-year bond is expected to be 7.5 per cent, with estimates ranging from 7.30 per cent to 7.63 per cent.

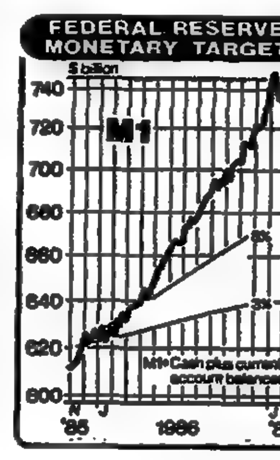
● Money supply figures (4.30 pm EST Thursday) are expected to show a rise of $1.5bn in M1, with forecasts ranging from a drop of $3.6bn to a rise of $4.0bn. This follows a $2.6bn fall in M1 last week and a record $14.6bn fall the previous week.

● The unemployment rate for January (8.30 am EST Friday) is expected to have risen marginally from December's 6.7 per cent to 6.8 per cent, with estimates ranging from 6.6 per cent to 6.9 per cent. Non-farm payrolls are estimated to have risen by 200,000 in line with the average monthly increases over the last year but less than December's 270,000.

Estimates range from a rise of 150,000 to 280,000. Smith Barney says that a new tax environment and an uncertain business climate may have led to some slowing in payroll gains last month.

Finally, a word of advice for investors who do not know the difference between revenue anticipation notes, revers repos and consolidated systemwide discount notes, etc. The Federal Reserve Bank of New York has just published a "Pocket Guide to Selected Short-term Instruments of the Money Market." The 12-page guide covers eight of the most popular investments in the US money markets and compares their characteristics.

William Hall



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.25	6.08	11.34	11.34	5.70
Three-month Treasury bills	5.60	5.39	5.55	7.19	5.40
Six-month Treasury bills	5.60	5.34	5.56	7.24	5.09
Three-month prime CDs	6.00	5.81	6.00	7.85	5.49
30-day Commercial Paper	6.00	5.85	6.10	7.76	5.55
90-day Commercial Paper	5.88	5.75	5.95	7.70	5.45

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	100	− ½	6.99	6.91	7.00
20-year Treasury	116⅝	− ½	7.70	7.65	7.66
30-year Treasury	100¼	− ¾	7.48	7.46	7.40
New 10-year "A" Financial	N/A	—	8.00	8.00	8.25
New "AA" Long utility	N/A	—	8.63	8.63	8.68
New "AA" Long industrial	N/A	+ 1⅛	8.50	8.63	8.88

Source: Salomon Bros (estimates).

Money Supply: In the week ended January 19 M1 fell by $2.5bn to $732.2bn.

NRI TOKYO BOND INDEX

December 1985 = 100	29/1/87	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	134.42	4.56	133.60	129.95	127.14
Government Bonds	135.19	4.22	134.27	130.85	128.27
Municipal Bonds	134.93	5.02	134.34	129.96	126.64
Government-guaranteed Bonds	135.86	5.07	135.24	130.54	127.36
Bank Debentures	130.79	4.14	129.82	128.66	124.12
Corporate Bonds	132.55	5.57	132.62	128.85	125.11
Yen-denominated Foreign Bonds	134.87	5.32	134.22	130.69	128.14
Government 10-year†	—	5.14	5.26	5.57	5.44

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid Price	Chg. on week	Yield
ABN Bank 8½ 91	150	103½	+0⅛	7.49
AHFC O/S Fin 11⅞ 94	100	103½	0	11.09
AIDC 11 89	75	107	+0⅛	7.13
Alcan Australia 8½ 89	25	100	0	8.47
Alcoa Australia 11 92	80	108⅜	+0⅛	9.34
Pacific Gas & El 15½ 89	45	102	0	14.28
Pacific Gas & El 12 00	75	118	0	3.52
Penney J C 11⅞ 90	100	104⅜	0	10.40
Penney J C 12⅜ 91	100	112	0	8.42
Pepsico Capital 8⅝ 91	100	103⅞	−0⅛	7.29

	Issued	Bid Price	Chg. on week	Yield
Petro-Canada 7½ 96	200	0		
Philip Morris 9½ 99	300	0		
Post Och Kred. 13½ 57	80	103½	−0⅛	6.67
Postipankki 11¼ 90	75	109	0	7.78
Proctor & Gam 10 96	150	111¼	−0¼	6.08
Pru Rlty Secs 0 99	365	37⅛	+0⅛	6.61

CONVERTIBLE BONDS				
Amer Bankers 5⅞ 01	70	103¼	+1⅛	30.63
Canon 3 00	100	118½	−2	0.41
Casio Computer 3 00	100	0		
Citizen Watch 3 00	50	137¼	−1½	2.37
Eastman Kodak 8⅛ 01	300	117⅛	+1⅛	14.38

WARRANTS				
Elektrowatt 5 96	61	1??	+2	−7.25
Gibraltar Savings 7½ 06	100	103¼	−0⅛	32.58
IBM 6½ 96	300	105½	+0⅛	41.28
ITT 4⅜ 87	50	109½	+2⅛	1.58
Kaiser Aluminium 5 86	30	94	0	55.53
LASMO 9⅞ 99	44	88½	0	53.48

Mitsubishi F 12⅞ 91	8/11/89	155	0	8.51
J P Morgan 11½ 90	16/8/87	85	−2⅛	7.88
Texaco Cap 12⅞ 92	1/9/87	68	+1	11.13
Wlls Frgo A 12⅜ 91	27/12/89	170	0	8.26
Weyerhsr C 11⅛ 90	15/11/87	91¼	−1⅛	8.09

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on January 30.

INTERNATIONAL CAPITAL MARKETS and COMPANIES

Ross Perot joins Jobs in Next venture

By Louise Kehoe in San Francisco

MR ROSS PEROT, the flamboyant founder of Electronic Data Systems, the computer services group he sold to General Motors in 1984, has become an investor and member of the board of Next, a new venture started up by Mr Steve Jobs, co-founder and former chairman of Apple Computer.

Mr Jobs announced over the weekend that Mr Perot had paid $20m for a 16 per cent stake in Next, which is developing a high-performance "student's work station" computer for the university market.

In addition to Mr Perot, Carnegie Mellon University and Stanford University have together invested $1.32m in Next and will hold 1 per cent of the new company's shares.

Mr Jobs himself has invested $12m in Next and owns 63 per cent of the stock, while the new company's 50 employees have been granted the remaining 20 per cent for a small investment.

The former Apple chairman, whose personal fortune was estimated at several hundred million dollars before he was ousted from the company in 1985, said he had no need to seek outside funding for Next.

The association with Mr Perot, however, offered an opportunity of partnership with "a person who shares our vision." Mr Perot was "a real straight shooter" and "really bright." He brushed aside Mr Perot's recent public row with GM, which paid him $750m late last year in order to leave its board and to still his increasingly trenchant criticism of its management.

More specifically, Mr Perot's commitment to upgrading the quality of education in the US (he has been involved in a long public wrangle over the running of schools in his native Texas) made him a *"valuable resource,"* Mr Jobs enthused.

Besides their common interests in computers, education and entrepreneurship, Mr Jobs and Mr Perot seem to share a liking for public acclaim. "Give him a headline and he's good for another 100 miles," says Mr Jobs admiringly of his new partner, quoting a line from the film Patton.

Brierley enters battle for Resorts International

BY JAMES BUCHAN IN NEW YORK

MR RON BRIERLEY, the New Zealand entrepreneur, has entered the confused and operatic battle for control of Resorts International, the $350m Atlantic City casino business which is the object of intense takeover speculation.

In a routine filing with the US Securities and Exchange Commission, Industrial Equity (Pacific), a Hong Kong investment company controlled by Brierley Investments of New Zealand, said on Friday that it had a 5.09 per cent stake in Resorts. The company owns considerable property on the Boardwalk in Atlantic City, the only legal address for gambling in the eastern US. Industrial Equity spent $14m in buying 289,100 of Resorts International class "A" shares.

The 5.7m Class "A" shares in issue, which rose by $2½ on Friday's announcement to $45¾, carry only one-hundredth of the voting rights of a tightly held issue of Class "B" stock, which stand at $123 after rising $1½ on the news.

Around 52 per cent of the Class "B" stock, which is convertible into Class "A" one-for-one, is controlled by a trust set up by Mr James Crosby, the company's founder, before his death last April. The executors are two brothers-in-law of Mr Crosby, Mr Henry Murphy, a New Jersey undertaker who is now chairman of Resorts International, and Mr Tom Murphy, chairman of Capital Cities/ABC, the broadcasting company.

The prime beneficiaries of the Crosby estate include Ms Marianne Brandstetter, sometimes called Baroness Brandstetter, who nursed Mr Crosby through his final illness, and Mr Peter Crosby, a former fugitive with several convictions for mail fraud, embezzlement and stock fraud.

Amid feverish takeover speculation, the Resorts International Class B shares have traded as high as $150. However, the executors of Mr Crosby's estate have so far refused or ignored a number of offers for the asset-rich company, which owns the Sands Hotel and casino and is completing another casino, the Taj Mahal, along the Broadwalk.

Mr Jack Pratt, a Dallas hotelier with a New Jersey gaming licence, has bid $135 a share for the Class B stock and made a separate offer for the estate's holding. Two other bids were reported, but either were *insubstantial or simply* collapsed. Class B minority shareholders are suing the estate executors for refusing to consider the Pratt bids and alleging conflict of interest.

Montedison lifts operating profits

BY ALAN FRIEDMAN IN MILAN

MONTEDISON, the Italian chemicals, energy and pharmaceuticals group, yesterday reported that gross operating profits rose by 8.1 per cent in 1986, to L1,600bn ($1.2bn).

The *increased operating* profit was struck on group turnover down by 7.8 per cent to L13,000bn (US$10bn). The drop, said Montedison, was the result of lower prices for its energy, fertiliser and other *products*.

Analysts expect Montedison to produce a 1986 consolidated net profit of more than L300bn against L113bn in 1985. This weekend's figures were only preliminary, however, and the final consolidated accounts will not be ready for another month or so.

It *was also announced* yesterday that Mr Raul Gardini, chairman of Ferruzzi, the agro-industrial concern, has been named Montedison vice-chairman. Ferruzzi is now the largest single shareholder in Montedison with nearly 30 per cent of the group's equity.

The Milan-based Montedison said total group debt was L4,300bn at year-end, against L4,988bn at the end of 1985.

The group's debt to equity ratio, which had been around 2-1 in 1985, was below parity in 1986 thanks in large part to a huge *fundraising programme* on the Milan bourse. Debt servicing costs in 1986 were equal to 4.5 per cent of total turnover, against 5.4 per cent

Montedison's capital equipment and research spending last year totalled L1,200bn, against L950bn in 1985. The group says it plans to allocate L1,300bn in the current year.

Canada to privatise fishery group

BY BERNARD SIMON IN TORONTO

THE Canadian government is to privatise Fishery Products International, the big Newfoundland group which was formed four years ago by the amalgamation of eight bankrupt fishing companies.

The privatisation, expected to be completed by mid-year, will include a C$130m to C$140m public share offering underwritten by McLeod Young Weir and *Dominion Securities*

About 15 per cent of FPI's shares will be retained for employees and to cover financial commitments to the Government and the Bank of Nova Scotia. No single shareholder will be allowed an interest of more than 15 per cent.

The federal government has a 63 per cent interest in FPI, with the remainder split between the Newfoundland Government (26 per cent) and Bank of Nova Scotia (11 per cent). FPI has 8,600 employees, and operates 17 fish processing plants and 66 trawlers.

The three shareholders have injected almost C$300m into FPI in cash and debt forgiveness since the restructuring of the Newfoundland offshore fishing industry.

Banco de Vizcaya pays more

By David White in Madrid

BANCO DE VIZCAYA, Spain's fifth largest commercial bank, proposed a sharply higher dividend of Pta 285 per share, compared with Pta 227 a year ago, at its shareholders' meeting in Bilbao on Saturday, on 1986 net profits up by 37.5 per cent to Pta 18.1bn ($142m).

Pre-tax consolidated earnings for the Vizcaya group soared by 48.5 per cent to Pta 31.6bn. The bank said its earnings improvement stemmed mainly from a 14 per cent reduction in financial costs.

It added that its country-risk had been reduced from $184m to $111m, or about 13 per cent of its combined capital and reserves. This was 55 per cent covered by provisions, it said.

Small rise for Kansallis

By Kevin Done, Nordic Correspondent in Stockholm

KANSALLIS, one of the two leading Finnish banking groups, increased its consolidated assets by 25 per cent last year, but the group's operating profit rose by only 5 per cent to some FM 1.11bn from FM 1.05bn.

Kansallis-Osake-Pankki, the parent bank in the group, increased its operating profits by only two per cent to FM 675m despite a 26 per cent jump in total assets

Goodyear offer oversubscribed

By Our Financial Staff

GOODYEAR TIRE and Rubber, the leading US tyre maker, has received more than *double the amount sought in* its share buy-back offer, part of a repurchase programme involving almost half its equity and aimed at securing the departure from is register of Sir James Goldsmith, the Anglo-French financier.

The company announced that it is to accept nearly 40.44m of its shares at the $50 tender price, compared with 84.47m shares tendered in total. This will cost Goodyear some $2.02bn, in addition to the $620m which it paid Sir James for his 11.5 per cent stake at the slightly lower price of $49.50 per share.

Swiss bank ties warrants to shares

BY JOHN WICKS IN ZURICH

BZ BANK ZÜRICH is to issue warrants with entitlement to a basket of Swiss-registered shares in what it claims is the first transaction of its kind in continental Europe.

The bank, which pioneered covered warrants in Switzerland in November, is initially to place some 40,000 warrants at a price of SFr 2,000 ($1,330). Each of these entitles the holders to purchase 10 registered shares of Swiss Bank Corporation and one each of Sandoz, Zurich Insurance and Nestlé at a price of SFr 19,800.

The warrants, which have a maturity of three years and five months (until June 29 1990), are covered by a corresponding number of shares made available by existing shareholders. Should more of these be offered, the issue could well be increased above the 40,000 level.

Most of the warrants are being placed with British merchant banks, according to Mr Martin Ebner, BZ bank president,

Due to the restrictions placed on the entry of foreigners into Swiss share registers, it is likely that the basket warrants will be sought by the warrant writers themselves and other Swiss institutions.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Nishimatsu Con. ¶‡	50	1992	5	3⅛	100	Yamaichi Int. (Eur)	3.125
Hino Motors ¶‡	60	1992	5	3¼	100	Nikko Secs. (Europe)	3.250
Elders IXL §‡	75	1997	10	5	100	CSFB	5.000
American Barrick Res. (a) §‡	50	1992	5	2	100	Banque Paribas	2.000
Showa Denko ¶	100	1992	5	(3⅛)	100	Yamaichi Int. (Eur)	*
BFCE ‡	150	1997	10	7¾	101	Société Générale	7.604
Itoman and Co Ltd ¶	80	1992	5	(3⅛)	100	Daiwa Europe	*
Tops Ltd (b) ‡†	200	1988	2	⅟₁₆	100	Bankers Trust Int	—
Mitsui Trust Fin ‡	200	1994	7	7¾	101¼	Mitsui Trust Int.	7.514
Kobe Steel ‡	100	1992	5	7⅝	101½	Nomura Int.	7.257
Wyse Technology §	45	2002	15	6	100	J. H. Schroder Wagg	*
Scandinavian Airline Sys. ‡±	100	1989	2	6¾	109½	Morgan Stanley	1.867
CANADIAN DOLLARS							
Belgian Railways ‡	90	1992	5	8⅛	101⅜	LTCB Int.	8.030
AUSTRALIAN DOLLARS							
First Austrian Bank ‡	40	1993	6½	14⅛	101⅛	Hambros Bank	13.889
Bergen Bank ‡	50	1990	3	15	101½	Merrill Lynch	14.350
Eurofima ‡	62.5	1990	3	14⅜	101¾	Morgan Stanley	13.626
Landesbk Rheinland-P.	40	1990	3	14⅜	100¼	Banque Paribas	14.267
D-MARKS							
Iberduero ‡	100	1994	7	6½	100	Dresdner Bank	6.500
Council of Europe ‡±	100	1994	7	5⅛	115½	Trinkaus & Burkhardt	3.286
GUILDERS							
Chrysler Fin. Corp. **‡	100	1992	5	6⅜	100	Amro Bank	6.375
LUXEMBOURG FRANCS							
ECSC **‡	250	1992	5	7⅜	100	BNP Luxembourg	7.375
Enso Gutzeit **‡	300	1992	5	7½	100	BGL	7.500
EIB **‡	300	1992	5	7⅜	100¼	Banque Paribas (Lux)	7.314
Union Bk Finland **‡	300	1992	5	7⅜	99¾	BIL	7.437
SWISS FRANCS							
Finnish Real Estate ‡	150	1993	—	4¾	100⅝	J. Henry Schroder Bk	4.677
Power Financial ‡	120	1997	—	5	100½	Bqu Paribas (Suisse)	4.935
Elders IXL **§‡	125	1997	—	2	100	Crédit Suisse	
Standard Oil Co. ‡	106	2000	—	4⅞	100	Goldman Sachs Finanz	4.875
Electricité de France ‡	150	1997	—	4½	100¼	Crédit Suisse	4.468
Chubu Electric Power ‡	200	1997	—	4⅝	99¾	UBS	4.657
Sumitomo Warehouse ‡	50	1992	—	4¾	100½	Banca del Gottardo	4.636
Kuraray Ltd **±	100	1992	—	(2⅛)	*	Crédit Suisse	*
Kuraray Ltd **§	100	1992	—	(1¾)	100	Crédit Suisse	*
Kubota Ltd ‡	150	1993	—	4¾	100½	Swiss Bank Corp	4.653
*Daimaru-Lekis **§*	*100*	*1992*	—	*(3)*	*100*	*Bqu Paribas (Suisse)*	*
STERLING							
Elders IXL §‡	85	1997	10	7	100	CSFB	7.000
ECUs							
EEC ‡	200	1994	7	7⅝	101⅛	Banque Paribas	7.413
EEC ‡	150	1992	5	7½	101⅛	Banque Paribas	7.224
New Zealand ‡	200	1993	7	7¾	101¾	Banque Paribas	7.421
YEN							
Credit National ‡	15bn	1992	5	5⅛	101⅜	Yasuda Trust	4.808
Council of Europe ‡	10bn	1992	5	5	101½	Daiwa Europe	4.657
Council of Europe ‡	10bn	1994	7	5¼	101¾	Daiwa Europe	4.948
Christiania Bank ‡	20bn	1992	5	5	101⅜	Nomura Int.	4.509
Portugal ‡	15bn	1994	7	6½	101⅞	IBJ Int.	5.174
Austrian Export Bank ‡	30bn	1998	12	5½	99¾	Nomura Secs.	5.505

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate notes. ¶ With equity warrants. ɸ With bond warrants. § Convertible. ± With currency warrants. (a) Gold convertible. (b) ⅟₁₆ over 3m Libor, linked to 7⅝ 1996 Denmark issue. Note: Yields are calculated on AIBD basis.

Lucy Kellaway on the excitement in Dublin of the Alba field discovery

Aran waiting to cash in on its luck

"EVERY OIL exploration company lives for the moment it might get lucky," says Mr Michael Whelan, managing director of Aran Energy. "For us, that moment has come with the discovery of Alba."

Shareholders seem to agree. On Wednesday last week the shares rose by a quarter, and at 50p, are worth nearly five times as much as a year ago.

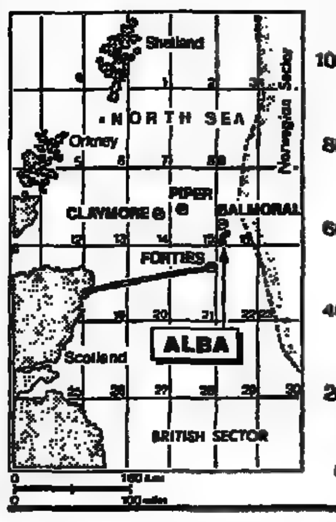
The spur to the latest rise was a report from Schroder Securities saying that the Alba field, in which Aran holds a 4 per cent stake, could be the fifth largest oil field in the North Sea, and hold as many *as 700m recoverable barrels of* oil. On this basis the broker says that Aran shares are worth between 75p and 81p, of which 58p is due to Alba.

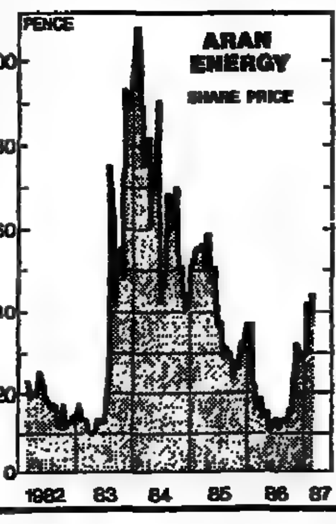
This kind of hype should have oil investors feeling pleasantly nostalgic — it has been a long time since any of the little oil exploration companies have come up with any discovery at all, let alone one that promises to transform the fortunes of the company.

A happy coincidence of two oddities explains the present case. The first is Aran Energy itself. Aran, the largest of the Irish Exploration companies, is by the standards of its UK *independent counterparts* a *tiddler*. This means that a discovery will have a large relative effect on the value of the company.

The Alba find is also pretty peculiar. Until recently the accepted view was that all the big fields in the North Sea had already been found, and anyone wanting to discover a field containing more than say 250m barrels of oil would have to venture out west of the Shetland Islands, where costs are too high to be attractive at low oil prices. If Schroders are right this view has been seriously challenged.

But are they right? Wood *Mackenzie, does not think so.* According to David Black the area is a "dogs breakfast of geology" and he estimates that the prospect could contain 250m recoverable barrels of oil, about one third of the Schroder estimate.





Michael Whelan

The company is not helping shareholders to get a better picture of what is happening. This is not altogether its fault, as the discovery has been declared a "tight hole" by the operator, Chevron, and partners are obliged to keep quiet.

While the partners themselves do not know exactly how exciting the discovery is, they know a lot more than their investors, and have enthusias*tically budgeted for five further* appraisal wells to be drilled this year, and are already discussing possible ways in which the field could be developed.

"We'd like to be able to tell our shareholders what is going on, partcularly when the news is as good as this," says Mr Whelan. Unfortunately such undiscrimatingly positive noises are of little use when it comes to putting a rational value on the shares.

Yet these gestures have whipped up Irish oil punters in Dublin into a frenzy of excitement. Mr Whelan — an oil market bull of the sort rarely glimpsed since the price col*lapsed—can tell them a story* that will make them want to go on buying.

Mr Whelan is an oil strategist with big ambitions. When he started Aran in 1972, he says it was the only oil company in Ireland. The others that have sprung up since, all relatively small, were mostly offshoots from Aran.

The company grew not just by acquiring Irish oil acreage, but by buying a Celtic Sea royalty, which entitled Aran to a proportion of the oil produced in 37 Celtic Sea blocks without having to bear any of the costs.

However, Irish oil prospects both in the Celtic Sea and in the Porcupine basin, where Aran has a stake in a discovery that is too expensive to develop, have proved a disappointment. The great blasts of enthusiasm which over the years have sent Aran's shares soaring have mainly come to nothing.

When the company decided to diversify from its Irish base, it did so in style, snatching Petrolex from under the nose of Saxon Oil, which had made an agreed bid for the company that was due to close in less than 24 hours.

Apparently the bid was not as hasty as the approach might have suggested. Aran had decided that it need a presence in the North Sea, and wanted a company with a large number of licences. With stakes in about 40 North Sea blocks, as a well as a unit in the giant Forties oil field, Petrolex seemed to fit the bill well.

No sooner was the deal made than the oil price fell, and the £15.8m acquisition price seemed much too high, even before the oil price collapsed. However, with Petrolex came the Alba stake, which Mr Whelan claims he had his eye on from the beginning. "We had a firm appreciation of where that block might take us, although we were not optimistic enough, as things have turned out," he says.

The production from the Forties Field is now about to come into its own by providing full tax shelter for Aran's share of the appraisal drilling on Alba.

In four or five years Aran expects to be a much larger company. Mr Whelan is thinking in term of a "substantial" cash flow from Alba, which for the sake of tax efficiency will demand an "extensive" exploration programme to match.

Until then Alba will pursue what Mr Whelan calls a bridging exercise. "We are not about to sit around for four or five years waiting for our jewel to be polished," he says, hinting that acquisitions of oil assets or of companies in the interim are more than likely.

Not content with this, Aran has other expansion plans in mind. One is to become a diversified international oil company, something which Mr Whelan thinks Aran is better placed to do than most of the UK independents.

Small oil producing states in Africa or in the Middle East would be inclined to look kindly on Aran, he says, because it is "the senior oil company from a *soverign state with no industrial imperial past.*"

Another, and even more curious, deal with the Middle East is also planned for the more distant future. Aran owns a *site in Ireland by the deep* Shannon Estuary which has full planning permission to build a refinery.

Having long since abandoned the idea that it might build a *£250m refinery itself.* Aran is now hoping that one of the Middle East producers might like to build their own refinery there to get access to a European market.

With so much going on it is perhaps *not surprising* that Aran has become a favourite bid candidate of late. The Irish Press has been alive with rumours that one of the London brokers has asked some of its larger institutional shareholders to name their price, offering to pay at least 50p a share.

Nothing *however* appears to have come of this, and the company is hoping that its 19,000 *shareholders will protect it* from any unwelcome approach.

No doubt Chevron, and perhaps some of the other partners, would like to get their hands on an extra 4 per cent of Alba, either directly or by buying the company.

Perhaps they are holding out for more information on the field itself before making a move. Or perhaps, armed with privy information, they judge that Aran's shareholders have once again got a little too excited.

Park Food set for Guinness purchase

By Philip Coggan

PARK FOOD, the UK's largest packer and supplier of Christmas hampers, looks set to acquire Guinness's frozen foods distribution subsidiary, Everfresh. Mr Peter Johnson, Park's managing director, said yesterday that the company "hopes to make an announcement very soon" about the purchase.

Last month, the Merseyside-based Park Food announced that it looked set for a second year, with pre-tax profits for the 12 months to March 31, 1987, likely to exceed last year's £2.27m.

Everfresh is one of Guinness' smaller subsidiaries and the consideration is expected *to be only £2-£3m.* The sell-off will be the first disposal authorised by Guinness's new board, headed by Sir Norman MacFarlane.

F. S. Ratcliffe

For the six months ended October 31, 1986, the F. S. Ratcliffe Industries group of precision spring manufacturing and painting contractors incurred a loss of £52,006, and the group will be in the red for the whole of the year.

However, a *monthly* profit was earned in November for the first time in many years; the overall rate of loss had been sharply reduced and that trend would continue in the second half, the directors claimed.

The directors regarded 1986-1987 as the year in which sound foundations were laid, and were confident that the correct first steps had been taken and that prospects were good.

Omnitech looks for new U.S. outlet

BY RICHARD TOMKINS

Omnitech, the start-up venture which came to the USM with plans to develop a revolutionary packaging machine last August, has terminated the *distribution contract it* had signed with a US agent.

The company's belated report and accounts, covering the period from incorporation in December 1985 to July 31 last years, says the agreement was terminated towards the end of 1986 after Kliklok, one of the biggest US distributors of packaging machinery, was sold by its parent company.

"Discussions are currently in hand with regard *to appointing* a new distributor both for the US and for parts of Europe," the report says.

Omnitech says the raising of capital through its flotation has enabled it to support the marketing and promotion of the Omnitrac machine and to market the company's systems engineering design services.

On-site demonstrations of the Omnitrac system will begi, this month with a number of large UK food manufacturers, and the complete system will be launched at the Dusseldorf packaging machinery show in May.

Turnover during the period reported on was nil. Research and development costs written off were £143,300, administrative costs £6,100, and interest payable £58,800, making a pre-tax loss of £208,200.

Ward White discusses possible Focus sale

BY PHILIP COGGAN

Mr Philip Birch, chairman of Ward White, the acquisitive retail group, confirmed yesterday that the company "was talking to a number of people" about the possible disposal of the Focus chain of shoe stores but would not comment on reports that Allebone and Sons, a Northamptonshire-based footwear retailer an manufacturer, was the likely buyer.

On Friday, Allebone's board announced that it was in talks which could lead to a "substantial acquisition and an extension of the company's footwear retailing activities" and asked the Stock Exchange to suspend its shares temporarily.

Ward White built up the Focus chain in the early eighties as a diversification from shoe manufacturing but its attention has shifted towards other retailing areas in recent years. Since the *start of* 1985, Ward White has acquired Maynards, Owen Owen, Halfords, Payless and most recently LCP.

If Allebone does buy the Focus chain, the move will vastly increase its size. At Friday's closing price of 59p, its market capitalisation was only £4.3m and its pre-tax profits for the year to January 31, 1986, were only £156,000 on turnover of £17.6m.

Hewetson joining USM

BY ALICE RAWSTHORN

Hewetson, one of the largest manufacturers of raised access flooring in the UK, plans to join the Unlisted Securities *Market through a placing of* shares later this month.

Hewetson is involved in both the manufacture and installation of raised access floors and claims between 15 and 20 per cent of the UK market. The company has developed overseas in the Far East, Middle East and Europe.

It is also involved in the marketing and installation of hardwood floors used in industrial and public buildings and plans to expand into acoustic flooring.

The company was founded in Hull in the 1870s. It functioned as an independent business until the 1930s when it was acquired by Horsley Smith, which merged with J. Gliksten in 1971 to form the International Timber Corporation. In 1980 part of the present management team staged a buy-out.

Since the buy-out the business has been rationalised and *Hewetson has withdrawn from* extraneous activities, such as its interests in air conditioning and leisure.

In the last financial year, to March 31, Hewetson produced pre-tax profits of £309,000 on turnover of £10.5m. Profits have risen steadily through the 1980s with the exception of the 1984-85 year, when they were eroded by high capital expenditure. The company will join the USM on a profits forecast and a prospective p/e.

After the placing, through the Leeds stockbroker, Rensburg, Hewetson will be capitalised at around £4m. It intends to float between 20 and 25 per cent of its equity. The bulk of the capital raised will be ploughed back to reduce borrowings and expand the business.

Appledore profit falls

A & P Appledore Group, shipyard adviser and operator, saw pre-tax profit fall from an adjusted figure of £1.19m to £1.03m in the year to September 30, 1986. During the same period, group turnover rose by more than 40 per cent from *£4.58m to £6.42m.*

However, the directors said that they were encouraged by the recent award of a long-term contract with Salink UK and Sealink Harbours for the provision of engineering and maintenance services at the ports of Dover and Folkstone, combined with a high level of activity at other locations.

They reported that Falmouth Shiprepair, in which Appledore has a 50 per cent stake, recorded a substantial loss in the year to March 31, 1986.

After tax charges of £429,000 (£500,000), earnings per 10p share worked through at 18.21 (20.48p). The directors proposed a final dividend of 4p (4p), making an unchanged total *for the year of 6p.*

Nolton £1.3m disposal

Nolton is selling the majority of the trading investments of Nolton Securities for £1.28m cash, which will be used to develop the core businesses of property, business services and consumer-related products.

The purchaser is Mr Andrew Millar, chairman of the company. *He is relinquishing* that position and leaving the board to pursue these and other interests. Mr Anthony Good, a non-executive director, has been appointed non-executive chairman with immediate effect.

Mr Good said the company would concentrate on its core businesses, all of which were seen to provide positive and predictable growth prospects. The deal is subject to shareholder approval.

Investments being sold represented 8.7 per cent of Bolton House Investments (OTC issuing house and licensed dealer), 5.8 per cent of McNally Design Group, and 5.1 per cent of Group Development Capital Trust, a listed specialist in unquoted companies.

Aggregate book value was £837,000, and the profit thereon *was in line with the best expec*tations in the ordinary course of realisations, Mr Good said.

BOARD MEETINGS

TODAY

Interims: Anglo United, Textured Jersey.

Finals: Berkeley Govett, Securiguard, Warner Estate.

FUTURE DATES

Interims—	
LDH Group	Feb 9
Ryeman	Feb 16
Trent Holdings	Feb 10
Wintrust	Feb 4
Finals—	
Appleyard Group	Mar 12
Commercial Union Assurance	Mar 4
Task Force	Mar 2
Unpown Investment	Feb 25

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Anglo Amer Gold	Mar 5	Final 825c
*BP	Feb 19	Final 22.0
*Barclays Bk	Feb 28	Final 10.2
Berisford (S. and W.)	Feb 24	Final 7.0
British Vita	Mar 3	Final 3.7
Cadbury Schweppes	Mar 6	Final 4.3
Commercial Union	Mar 4	Final 6.85
Fisons	Mar 4	Final 3.34
General Accident	Mar 5	Final 14.0
*Gold Flds SA	Feb 9	Interim 55c
*ICI	Feb 26	Final 20.0
*Lloyds Bank	Feb 27	Final 13.5
McAlpine (A)	Feb 24	Final 8.7
Marley	Feb 24	Final 2.35
Midland Bank	*Mar 5*	*Final 14.8*
*NatWest	Feb 24	Final 18.2
Peachey	Feb 18	Interim due
Plessey	Feb 20	Interim 2.072
*Reuters	Feb 11	Final 2.0
Royal Insce	Feb 27	Final 16.55
Securicor	Feb 12	Final 0.673
*Shell	Mar 5	Final 22.5
Sime Darby	Mar 8	Interim due
TI	Mar 5	Final 5.0
Vickers	Feb 24	Final 8.0
Williams Holdings	Mar 6	Final 8.0
York Chems	Feb 26	Final 3.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast

Highgate & Job interim setback

Highgate & Job Group is closing its protein division. The directors of the Strathclyde-based company made the decision following a severe setback in trading in the first half *of 1986-87 and substantial ex*ceptional losses because of product deficiencies.

On turnover of £1.35m (£1.2m) the division made a loss of £40,000 in the six months to September 30, 1986, against a *profit of £11,000.*

The closure would release working capital during the next six months, directors said.

The oil and chemical division also fell into losses, giving a *group attributable loss for* the period of £191,000 against a profit of £12,000. Group turnover was £2.16m (£2.75m) and there was no tax charge. Loss per 50p share came out at 19.69p against earnings last time of 1.24p.

FINANCIAL TIMES STOCK INDICES

	Jan. 30	Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 23	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs.	85.31	85.35	85.31	85.37	85.49	85.63	94.51	80.39	127.4	49.18
Fixed Interest	91.90	91.43	91.47	91.35	91.75	91.61	97.68	86.55	150.4	50.53
Ordinary	1441.0	1427.0	1440.4	1441.6	1411.2	1425.9	1441.6	1094.3	1441.6	49.4
Gold Mines	321.8	322.6	331.1	322.9	318.5	322.7	357.8	185.7	734.7	43.5
FT-Act All Share	903.29	899.10	904.34	904.21	889.97	896.04	904.34	664.42	904.34	61.92
FT-SE 100	1808.5	1798.1	1812.1	1814.4	1781.8	1795.3	1814.4	1370.1	1814.4	986.9

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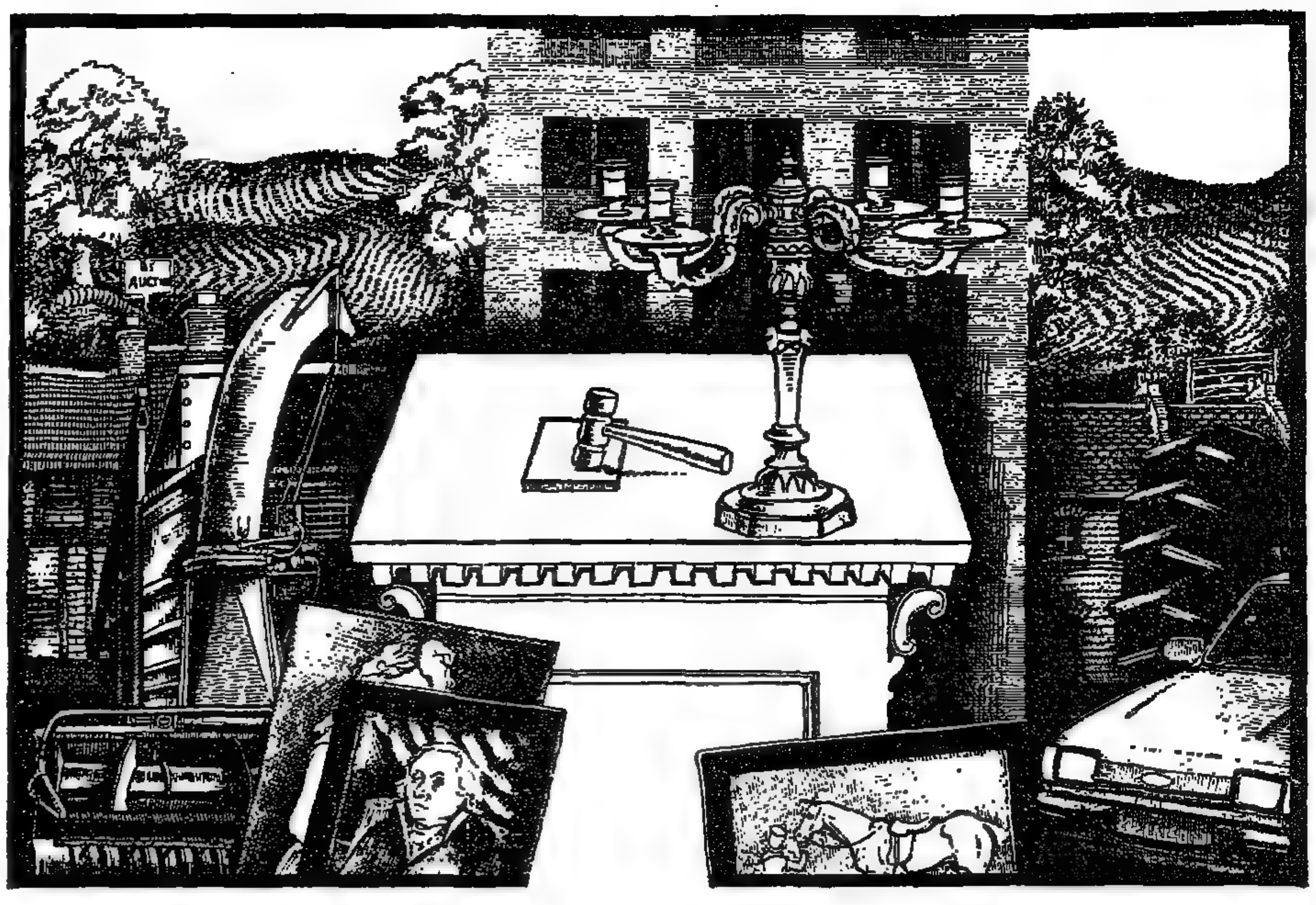
FINANCIAL TIMES SURVEY
Monday February 2 1987

Auctions

A greater appreciation of the use of auctions in speeding up sales is reflected in the rise in turnover in sectors as diverse as commercial property, plant and machinery, fine art, agricultural land and car auctions



The gavel strikes it rich

By William Cochrane

AUCTIONING as a method of selling property has been enjoying a period of very strong growth in recent years.

The London Auction Mart, which provides a central London venue for most of the firms involved in property auctions at the Connaught Rooms, reported another record year last October; when the total value of sales rose by more than 65 per cent to £209m.

The two biggest firms, Barnard Marcus and Allsops, use other hotels like the Kensington Hilton, the Berkeley in Belgravia and Grosvenor House in Park Lane. Barnard Marcus stayed at No. 1 in 1986, according to the Chartered Surveyor Weekly, realising £156.5m from 4,065 lots offered over 42 days, compared with a total of £92.5m in 1985.

As its average lot size of around £55,000 suggests, Barnard Marcus operates mainly in the residential market, although it has been flexing its muscles on the commercial and industrial side in recent years.

Allsops, led by Mr. Clive Carpenter who took his first auction in 1970, labels itself the top commercial operator—an area that has re-emerged strongly at auction—and last year achieved gross sales of £130m, more than double the £62.7m of 1985. The firm's average lot size was around £230,000 and at the end of the year Mr. Carpenter noted increased demand for industrial and office investments "which up to recent months have received less attention," he said.

In a sense, the growth in auctions reflects the condition of Britain's "prime" property investment market, where the investing institutions have been much less active in the 1980s. For a long time, especially in the late 1970s, investors were encouraged to protect themselves against inflation by owning strategically located property— shops in the best high street positions, offices in areas of high demand and limited potential growth like the City of London.

According to Healey & Baker, this brought prime yields down to 3½ per cent for shops, 4½ per cent for offices and 6¼ per cent for industrials round about the end of 1981, when investors who could not get enough prime adventured into the "near-prime" category for yields in the 6 to 9 per cent range.

Most funds would not touch secondary and tertiary investments yielding over 10 per cent. However, managers like Matthew Oakeshott of the Courtaulds Pension Fund (now with his own company, Aubrey Investments) and Terry Goddard, property overlord of the Habitat/Mothercare (now part of Storehouse Group) bought secondary, proved their theories correct and told the world about it in one way or another.

For the record, H & B say that prime yields have now moved out to 4, 5 and 8 per cent respectively; and "near prime" has acquired a new description, having been dubbed the "Black Hole" for its lack of growth and subsequent marketability.

This has prompted investors to consider the auction market. Its wares might be secondary, even tertiary, but by definition they are marketable. The supply side, meanwhile, has been helped by the Government's drive for financial efficiency which has brought new clients like the Commission for the New Towns and British Rail to the market, with statutory asset disposals or simply surplus properties to shift.

Whether this is a trend or a temporary expedient remains to be seen. Professional auctioneers argue strongly that their speciality should form a stable and growing sector of the property investment market. But they also remember what the market has been.

"Traditionally," says Chris Drury, partner in charge of the auctions department at Jones Lang Wooton, "auctions may have occupied the same sort of role which jackals and hyenas have performed in Africa—not exactly scavengers, but cleaning up the scrag end of the property market, like secondary shops and Victorian houses in all sorts of twilight areas".

JLW realised under £10m at auction in 1984. In 1986 it achieved a record £8.1m for one lot, a 10.3 acre former British Rail site in Drayton Bridge Road in West Ealing, West London, within a total of £35m to £37½m.

Mr Drury expects substantially better results for 1987, maintaining that in the last few years, auctions have moved to the front line in secondary property. "A few years ago," he says, "people asked why they should go to auction." Now he says, the question is "why not?"

He says that auctions provide, more than any other method of sale, the prospect of achieving a quick result. In a four-month period in the second half of last year JLW offered about 30 properties in four sales. The marketing period for those properties began six weeks before the sales. All of them sold either at or before the auction.

He maintains that private treaty, the method whereby one investor sells to another in much the way that private houses generally change hands, would never have matched this performance.

"With private treaty, you first make the deal, and then you make the legal inquiries," he notes. "In an auction the inquiries are made before you bid".

Dick Price, now a consultant to Healey & Baker, but still active as an auctioneer, has been associated with the auction market since 1964. In 1969, he recalls, he sold Hampstead Garden Suburb, 5,000 properties for a total of £2.45m, in just one lot.

He provides the most cogent argument for the continuity of the auction market, in that he recalls good volume at decent price levels throughout the 40s, 50s and 60s. Healey & Baker is mostly associated with the retail market, although the percentage of shops in its auction sales has dropped as the firm in general has broadened into the office and industrial sectors property.

H & B's auction sales rose from £12.5m to £19m last year and partner David Masters says that the firm is aiming at the quality end of the market where property companies, trust funds, charities and institutions compete with the private buyers.

There is no discrimination in the auction room. In chronological order, this has clearly been an attraction to Hasidic Jews, Kenyan Asians, British-born Indians and Pakistanis and, most recently, buyers from the Far East.

For the auctioneer, says Tony Trump, who has filled that role for Edward Erdman since 1983, standing on the rostrum is only 5 per cent of the job. Preliminaries would start with a conversation agreeing a reserve price for the property, followed by terms of appointment for the auctioneer; Mr Trump, would then instruct the vendor's solicitor and after that, he says, "the real action starts".

He and his team inspect the property, measure it, plan the legalities and the software like Erdman's detailed and recently redesigned catalogue.

After that there is usually a period of a month when the catalogue is on the streets and bids before the auction may come in. "I will sell in advance only when I get a bid which I don't think I'll better in the room", he says, adding that such a price would have to be considerably better than any guide price he would give the potential purchaser at that stage.

On the day, the customer gets some opening banter, a detailed introduction and explanation of the ground rules and the catalogue, including addenda on matters of detail which may have come up or been altered since the catalogue was printed.

Auctioneers remark upon the excitement which can flare up on the floor, leading sometimes to a particular lot making a price much more than expected. The deal is nailed down immediately afterwards in an adjoining room, where a buyer can get coffee, help to fill in the contracts which form part of the catalogue and can even negotiate financial backing.

They are careful not to claim generally higher prices for properties sold at auction, rather than private treaty method. But Mr Trump notes that with luck, a sale can be completed 28 days after the auction; so it could be only four months between the vendor's initial phone call, and money in the bank.

Will the present excitement last? Mr Trump is cautious: "people are in the market because it smells good", he says. "They could be in second hand cars next year. In 1974, if I remember rightly, it was Irish agriculture. . . . .".

The future

Need for guidelines

THE CONTINUING success of auctions in selling real estate will depend on both vendor and purchaser maintaining faith in the process.

In the art world such confidence has recently taken a knock as a result of the case involving Christie's which has fortunately now been settled out of court in the United States. Mr David Bathurst, president of the firm in the US, held a sale of eight pictures, only one of which sold. However, Mr Bathurst told the press that three paintings had gone under the hammer, in order to protect his client and the art market.

Already in this country this case has led to Westminster Council introducing legislation under the Greater London Council General Powers Act 1984 which requires all auction houses in the borough to be licensed. This includes the Connaught Rooms, the home of the London Auction Mart, the premier real estate auctioneering organisation in the country. Any malpractice, and the licence could be taken away.

The auctioneers themselves do not want government legislation regulating their activities. Most of the leading auctioneers are members of the Royal Institution of Chartered Surveyors which is drawing up guidelines to spell out good auctioneering practice. This it is hoped would show that the business can put its own house in order without the need for outside interference.

Secrecy, on the part of the auctioneers, the vendors and the buyers is an integral part of the auction process. The sellers and purchasers, 99 cases out of 100, do not want to be named and prefer it if they are not recognised. Any such publicised spotlight on the market could scare business away.

John Barnett, Harman Healy & Co's auctioneer, tells a story about a man who wanted to bid for a property at one of his sales but did not want to be identified in the room in any way, not even by the use of an initial, for example "Mr C.", which is common practice. He sent a note to the rostrum which said that if he

Continued on Page 4

AUCTIONS 2

How auctions work

A platform for the best sales

ALTHOUGH property auctions have been in existence for a very long time, they have not always been as popular as they are today. In the 1960s they fell very much out of favour due to the somewhat tarnished image attached to them as a result of being patronised and dominated by the residential dealer anxious to unload his blighted stock.

The property crash of the 70s did not help their cause and it was only during this decade that they regained their position of trust and respectability. They are now firmly established as a valid method of sale for nearly all types of property, being popular with both vendors and purchasers alike.

In the past the property auction market has been dominated by the residential market, but the commercial side has now taken the lead.

The auction method is seen by the vendor as an effective method of sale because it achieves the best possible price within a specific period of time.

Auctions work well whenever there is a strong demand. Currently good secondary retail investments (dominated by Allsops) and unmodernised houses (dominated by Barnard Marcus) fetch extraordinary high prices in view of the scarcity value attached to them.

Alternatively, auctions work well when it is expected there will be only one buyer for a certain property. In this case it is an ideal method of "flushing out" that special purchaser and ensuring that he pays at least the reserve price. The sale of such property by private treaty is very much harder to achieve without that important element of competition, which is crucial for maximising the price for any property at auction.

The established auction houses such as Allsops and Barnard Marcus have a comprehensive list of over 10,000 potential buyers whom they circulate regularly. Coupled with intensive marketing and advertising, this tends to ensure a good attendance of buyers at the auction to bid against each other.

Some regular auction-goers are also not averse to buying "blind," that is "off the catalogue," without either having seen the property or having made any legal inquiries before bidding. This can be very advantageous to sellers of difficult lots, provided that they are prepared to accept realistic reserves.

An auction is able to offer the best of two worlds: it can be used as a platform for a sale by private treaty if circumstances dictate. For example, if the auctioneer receives a good offer prior to the auction, he may advise his client to accept it, while if a property does not sell on the day, it could well sell afterwards, either later that same day at the end of the auction, or the following day. Some buyers actually specialise in "unsold lots." One firm of auctioneers, Conrad Ritblat, had an "unsold lots table" outside the main auction room at one of their sales last year and did a roaring trade as a result. *In short, the auction can be used* as a lever to effect a private treaty sale.

However, if a property does fail to sell, either before, during or immediately after the auction, it can then prove difficult to sell by any other means, as it will have been extensively marketed and have become "stale."

The situation is rare. Usually more than 90 per cent of all property offered at auction sells, provided a sensible reserve is agreed with the auctioneer (usually around 5-10 per cent below market valuation). No self-respecting auctioneer will take on a property where he knows the reserve is too high or, for one reason or another, is not suitable for auction. A successful auctioneer is only as good as his last sale, and both his reputation and his percentage success rates are on the line if he accumulates a high number of unsold lots.

The leading UK property auctioneers now dispose of over £500m worth of UK property each year, but they still prefer to keep their own house in order rather than have government legislation forced upon them. They are all members of the London Auction Mart, a self-governing body of 21 voluntary directors, all chartered surveyors and the majority practising auctioneers of leading firms, and presided over by Mr Peter Winfield, the senior partner of Healey & Baker, as chairman.

The mart has drawn up a code of conduct for practising auctioneers under the guidance of Mr Clive Carpenter, Allsop's auctioneering partner, and this is in the process of being approved by the Royal Institution of Chartered Surveyors.

The London Auction Mart is not actually restricted to members of the RICS. But to maintain a high standard in the interests of the public and the profession, they reserve the right to refuse an application to sell from their rooms if they think the auctioneer will not match their required standard.

Auctions have also been subject to some legislative regulation since the turn of the 18th century. Today's auctioneers must take due account of the 19th century Sale of Land by Auctions Act, the Auctions (Bidding Agreements) Act 1927, the Mock Auctions Act 1961, and, *most recent,* the Auctions (Bidding Agreements) Act 1969.

Property auctions were once dominated by the residential sector. But today secondary commercial investments represent the biggest sector. The method of sale is ideally suited to the break-up of property portfolios.

Nationalised industries, like British Rail and British Coal, *are great devotees of the auction route,* and the streamlining of state-owned assets, industries and quangos, means there has been a substantial input of properties which are no longer economic to hold.

The London Residuary Body has been a new entrant into the auction room in the post year, disposing of their unwanted assets through Hillyers and Strettons. Local authorities and many building societies are now using the auction as a method of sale, as are trustees, receivers and executors of estates. The Co-operative Wholesale Society became the single largest auction vendor last year, beating British Rail Property Board which had held the honour for the previous two years.

The inflow of secondary properties from large development companies has also increased, recently, to fund the refurbishment of older developments and clear the decks of properties which are labour-intensive to manage.

The residential sector itself is changing with an increase in unmodernised houses replacing the ever-dwindling tenanted stock which once formed a major part of residential auction catalogues. These changed circumstances have also brought about a new breed of auction-goer, the builder-developer, who has largely replaced the private property company.

The builder-developer is in turn having to compete with an increasing number of owner-occupiers who will bid for a house or flat needing modernisation. With the benefit of easier mortgages, bank finance and, more recently, on-the-spot auction finance, arranged by some auctioneers themselves, owner-occupiers are able to outbid dealers and builders, pushing prices even higher and making profit even lower.

Very few new firms have joined the auction market in recent years. There are large costs involved in organising an auction (*in the case of the leading firms it is a six-figure sum*). Non-auctioneering firms of estate agents prefer to enter their properties into one of the more established auction house sales, and share the auctioneers' commission and success, without having to incur any costs themselves.

A notable newcomer is Barnard Marcus, which has grown into the country's leading auctioneer of residential property after only eight years in the business.

Another promising newcomer which entered the auction market late in 1986 was Folkard & Hayward. It joined forces with the old-established firm of Normans, and now looks set to corner a significant slice of the residential market this year.

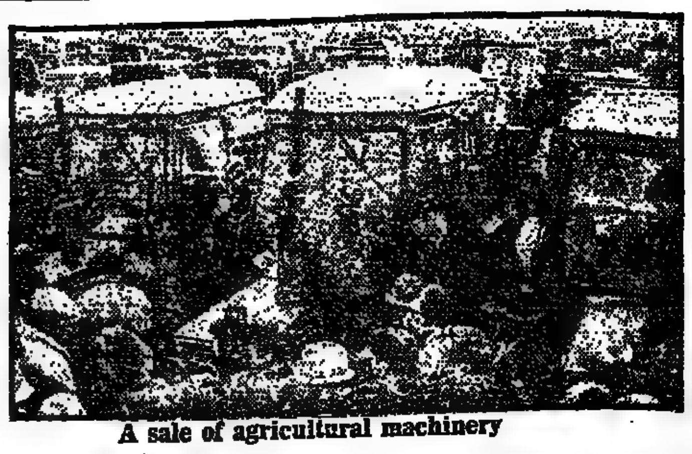
Meanwhile, J. Trevor & Sons, recommenced auctions in 1986, after an absence of some 10 years, holding joint sales with West London agents Horne & Sons. There has been some crossing of the traditional lines, with Barnard Marcus and Willmotts, predominantly residential auctioneers, starting commercial auctions, and Allsops and Conrad Ritblat, previously commercial-only auctioneers, starting up a residential arm.

Other large commercial auctioneers are Harman Healey, who together with Conrad Ritblat are hard on Allsops' heels in the success charts. Harman Healey's auctioneer, John Barnett, has made a name selling the unusual and difficult, including small Scottish islands (*the less charitable call them* rocks), some with the title Laird going with them.

Susan Harris

Plant and Machinery auctions 1986

			Auctions	Days
1	(1)	Henry Butcher & Co.	64	76
2	(5)	Walker Walton & Hanson	38	41
3	(10)	T. Saxton & Co.	30	34
4	(2)	M. Isaacs & Son	27	27
5	(—)	J.F.T. Law & Co.	16	13
6	(—)	G.F. Singleton & Co.	16	13
7	(8)	Shirlaw Allan & Co.	15	13
8	(—)	Phillip Davies & Son	12	12
9	(—)	Thimbley & Shorland	13	11
10	(—)	Husseys	11	11



A sale of agricultural machinery

Plant and machinery

When recession brings windfalls

THERE WILL always be companies that fail, and they will always require *industrial* plant auctioneers to dispose of their assets. Such is the view of Mr Nicholas Schofield, senior partner of Henry Butcher, the leading plant and machinery (P. & M.) auctioneers in Britain.

The company prides itself on being a redistributor of assets. It handles the largest P. & M. auctions in Britain, and has a growing business overseas.

"*It might be considered* a ghoulish business, but we are providing a vital service," says Mr Schofield. It is also a business that is becoming increasingly international, with British firms searching out business on the Continent and US firms also expanding overseas.

"We began our foreign business in earnest three years ago. Our approach was simple. Look *at economies with zero or* negative growth which still had an industrial infrastructure."

The world recession has provided a windfall for P. & M. auctions. A freefall in the oil price forced the cancellation of many Middle East projects, creating an upheaval in North Sea oil towns such as Aberdeen and among American oil industry fabricators.

The inability of many Third World countries to pay debts has also meant good business for P. & M. auctioneers. In the UK, the closure by Caterpillar of its Scottish operations will bring further assets on to the market.

The volatility of world markets has also made it tough, however, for large companies like Butchers which has 50 per cent of its business overseas. It was caught out by the fall in the dollar last year. On one recent Malaysian deal it saw a 3 per cent shift in rates in less than a month, a move which can easily wipe out all the firm's profit on an auction.

As British industry begins to recover and available P. & M. auction stock dries up, Butchers and other auction firms are waiting for the shakeout in agriculture.

"The level of agriculture failure in Britain at the moment suggests that large plant makers will be experiencing problems during the year," says Mr Schofield. "We should be very busy."

Mr Robert Hanson of Walker Walton Hanson is equally gloomy on the prospects for European agriculture. "We simply grow too much food and don't eat enough of it. Subsidies must come down and so will prices."

John Riddy, partner in Cheffins Grain & Chalk, specialises in agricultural auctions. The tractor market, a backbone of sales, is heavily dependent on exports with many of its 400 tractors sold last year ploughing Mid-East or Continental furrows this year.

"Belgian, Dutch and many Mediterranean buyers are active," Mr Riddy explains. "Massey and Ford are the main names with Leyland and David Brown also popular. A 1977 model would make between £2,000-£3,000." Cheffins acts more as a wholesaler with many large overseas buyers reselling them directly to individual farmers. Many foreign markets have specific restrictions on importing tractors less than 10 years old thereby creating artificially high demand and prices for machinery from the late 1960s and early 1970s.

"Generous UK capital allowances on new equipment meant that many farmers bought too much and new tractor sales plunged by 25 per cent last year," says Mr Riddy.

All agree that auctions, as a sales medium, are achieving wider public acceptance. The standard 5 per cent commission slides rapidly on large sales. In the highly competitive US market, Butchers stress that hundredths of a percentage point in rates makes the difference in securing a disposal contract.

Another major international player is Ritchie Brothers of Richmond, Canada. Mr Dave Dinwoodie, manager of the international division, argues that *P and M auctioneering* is poised for a major change with a greater emphasis on dealing directly with the end-user rather than inviting or encouraging middlemen or brokers.

Ritchie, which claims leadership in the US market, has total turnover of about $300m and deals directly with the end-user of the plant about 80 per cent of *the time*.

"We see a market anywhere provided there are imbalances in supply and demand, exchange rates or growth rates," says Mr Dinwoodie. "In the US there has also been a psychological shift in people's attitudes to auctions. Historically auctioneers were called in as a last resort in distressful situations. Now we are looking at business considering us as a first choice for the disposal of assets rather than a last chance."

"The upsurge in joint ventures in American industry, particularly in the building trade, has prompted major rationalisation of equipment levels and plant stock. These people see they have a chance of getting a top, even a guaranteed, price by using our method of sale."

Ritchies plans to expand its European operations which are located in the Netherlands as the EEC economies pick up and arbitraging opportunities develop owing to currency factors.

The group sees Singapore and Bahrain as crucial hubs of activity in its Far Eastern expansion from which concentric circles of activity can emanate.

It relies heavily on computer tracking of sales and can thus pinpoint how much a standard item of equipment such as a Caterpillar D6 can fetch in any US, Canadian and European location thus enabling clients to shift to the best possible disposal site.

"Our concept of auctions is portable," says Mr Dinwoodie, "and that's exactly what we intend to do with it."

In another approach now becoming more common many companies, rather than risk the vagaries of the auction market for plants and machinery, now use specialist "underwriters" to dispose of surplus plant and machinery.

Such firms offer either money up front or will guarantee a minimum sales value. They ensure that the vendor *avoids* the risks associated with auctions such as goods not reaching reserve levels. This affords the vendor the chance to sell promptly and safely for a figure close to an expected auction realisation.

Some "underwriters" often either find a buyer for certain of the higher value or specialised plants, or hold it for their own stock. The *selling* company then has all the certainty of realising an asset without the attendant risks.

Paul Hannon

Agricultural Land

Only the stars benefit

THE PAST year has been another depressed one for the agricultural sector. In an uncertain market farms are generally sold by private treaty; auction is only used for the best property of its type.

In the investment market there has been little or nothing sold under the hammer with tenants buying their farms by private treaty.

However, where there were auctions during 1986, they were the stars of the market. In particular, holdings with an attractive house commanded high prices even when the land was of moderate quality. This particularly applied where the farms were close to the motorway corridors where access to London via the M3, M4 and M25/M23 is easy.

The year of the Big Bang which boosted salaries in the City enabled those with large amounts of money to spend to find a pleasant house with 300 acres for as little as £300,000—"small beer" to some these days.

In general, vacant possession farms saw a general slide in value. The best land in the Fens passed the £3,000 per acre mark and the prices for Grade 1 and 2 land could go up to £2,000 per acre. Asking prices were reasonable as some land proved impossible to sell unless there was some external influence such as a good house.

Neighbour interest was most prevalent in the bare land sector. Lotting was important in 1986 and large parcels of poor land could stick for months. The "pony paddock" market could see £3,000 per acre and moor and woodland was popular—up to £1,000 per acre.

The investment market in the past year was characterised by an almost complete lack of institutional interest. Returns were poor, capital values fell and there were far more attractive investments.

Yields increased from about 5 per cent to between 7 per cent and 8 per cent for Grade 3 let land. Estates varied from between 3 per cent and 4 per cent at the start of the year to 5 per cent to 6 per cent at the end.

Janice McKenzie
Estates Gazette

Mr Richard E. Pryce conducting an auction for Healey & Baker

Commercial property

Shops go on parade

THE COMMERCIAL property auction market over the past five years has been dominated by the sale of shops, both singly and in parades. Leaders in the field include Allsop & Co, Harman Healy & Co, Conrad Ritblat & Co, Hirshfields and Healey & Baker.

The current auction trend is an ever-increasing demand for good shop investments with good quality covenants according to Clive Carpenter of Allsop & Co. In addition, lots worth over £1m are now regarded as acceptable where the property has some special appeal.

Allsop sold a supermarket in Leicester let to J Sainsbury at £136,700 pa for £1.2m in October, illustrating both the £1m barrier principle and the importance of the good covenant.

Healey & Baker's October sale also proved this point. A parade of eight shops with offices above in the centre of Stafford was knocked down at £917,500 for an income of £71,395 pa. Tenants here include Mothercare and Thorn-EMI.

Sale and leasebacks of shops at auction has been a route taken by some, notably the Ladbroke Group through Hirshfields. In June last year Ladbrokes offered 34 of their more secondary shops on a sale and leaseback basis, selling 23 of them at yields averaging 10 per cent. This followed a sale of 20 Ladbroke lots through Hirshfields in November 1985 when £536,900 was raised.

In general, the most popular lots at auction are parades. These properties can either be kept as investments or broken up with the possibility of selling to the tenants. In addition, the properties can sometimes be broken up horizontally, separating the residential areas often found above shopping parades from the shops themselves. The resulting flats or maisonettes can then be sold on long leases while still retaining the income from the shops.

Single shops are also a popular small investment with yields on some falling as low as 4 per cent. In May last year Allsop sold such a lot in Kilburn, NW6. The shop produces £4,500 pa and was knocked down at £113,000, a yield of only 4 per cent.

There are recent signs, however, that both the office and industrial sectors are picking up at auction. In December Conrad Ritblat & Co sold a block in Liverpool partially let as a banking hall for £595,000. The 22,600 sq ft block produces £73,437 pa, a yield of 12.3 per cent.

Jones Lang Wootton have proved successful with industrial property at their sales and have tended to make a specialisation of the sector. In October last year they offered six lots, three of them industrials and all three sold, one at a yield of 7.9 per cent.

A warehouse/showroom on Weydown Industrial Estate, Haslemere, Surrey, let at £11,200 pa, was knocked down at £141,000, a yield of 7.9 per cent.

All the major London auctioneers increased the volume of business attracted over the past five years and most have also found that the nature of the lots is changing.

Commenting on Conrad Ritblat's activities over the past five years, Simon Riggall said: "The market has grown for us mainly in the quality of the lots we deal with and from that the value has gone up.

"Where before people expected to buy tertiary properties at auction, they are now looking for quality lots. Even if there is a general decline in the property market I don't see a drop in auction activity at all. In fact even more properties might come on to the market."

Richard Auterac of Jones Lang Wootton has also found that the market has altered quite sharply. He said: "Five years ago we dealt almost exclusively with small retail lots. Now we deal with the larger shops, industrials and offices although the market for offices is very thin. Our average lot size is now £500,000 which is an enormous increase on five years ago.

"We don't see our particular market diminishing although this does depend to a certain extent on what happens at the next election."

Success with selling at auction depends to a very large extent on the setting of realistic reserves. A lot of auctioneers have a strict policy on this and if a client wants to set a reserve which the auctioneer thinks is too high, he will refuse to take the lot on.

Jones Lang and Wootton recommend between 5 per cent and 10 per cent below its opinion of value as reserve although in some cases even greater leeway may be suggested.

"Our philosophy is to agree reserves early rather than blame the client after a dull sale for insisting on reserves which are too high.

"Occasionally we are prepared to 'take a punt' with an unusual or unpredictable property to see how the market reacts," Mr Christopher Drury of JLW observes.

The commercial auction market is concentrated in London and based on the London Auction Mart's home, the Connaught Rooms in Great Queen Street. However, Manchester has a strong representation in the form of Longden and Cook and north of the border McEvoy Vigers are the major indigenous firm.

These two firms have historically relied on lots put up by the British Rail Property Board which are now decreasing in both quality and quantity, so the market for these areas seems more uncertain than that for the thriving South East.

Unless the political complex of this country changes drastically or there is a major alteration in the property market in general, it seems likely that the commercial auction market, at least in London, will continue to prosper.

Janice McKenzie

Housing

Two firms dominate

THE RESIDENTIAL auction market in London is currently led by two firms, Barnard Marcus, and Willmotts.

Barnard Marcus's auction receipts for the period January to July 1981 were £8.2m — this had risen to £99m for the equivalent period in 1986, making the firm the most successful in the country.

It is not unusual for Barnard Marcus to put up 350 housing lots a month, of all types — tenanted, vacant, modern and old. The prices paid for the houses are generally not high, but the throughput brings the high takings.

The majority of buyers and sellers at a Barnard Marcus's sale are dealers. This is also the case for the firm's nearest rival Willmotts. So in effect the same properties are passed from hand to hand over a period of time and it is not uncommon to see the same house come up time and time again, albeit in different auctioneers' catalogues.

Until now, it has not been common for a private buyer to purchase his house at auction, as is the case in Australia where the majority do. However, this could change and the building societies have shown themselves willing to finance such home owners.

The Woolwich Building Society say that applications for mortgages for buying at auction are rare in their experience. They said: "They could be counted on the fingers of one hand. There would have to be a valuation and an inquiry into status. There would also be a limitation on the amount of money we could offer depending on how much was paid at auction. The time factor is a problem but it is possible to grant mortgages for auctions in general terms."

The Leeds think they are progressive in their attitude to potential clients using auctions. "If someone wants to buy a property at auction next week we would get a valuation done and issue a letter of intent which covers the legal aspects," it points out.

On the other side of the coin, mortgage arrears are now leading building societies to put up houses for auction in order to recoup their money.

The Abbey National offered 31 such properties at Willmotts' sale last April. Although the society came away £92,350 better off, only 13 of the lots sold. Most of the properties were in those parts of the country which have been worst hit by the recession, in particular Lancashire, the West Midlands and South Wales.

At the time the Abbey National said it would consider using auctions when it felt that the method was appropriate. "The level of repossession has been rising but recently has stayed steady. We may put more properties to auction depending on the circumstances," it pointed out.

However, the Leeds do not use the auction process themselves at all for selling. "We use private treaty because we want to get the best price and this cannot be guaranteed at auction. Only in exceptional circumstances would we contemplate putting property up for auction."

Housing land has proved a runaway success under the hammer. The most successful auctioneers in this field have been Jones Lang Wootton, offering large parcels on behalf of the British Rail Property Board. JLW now claim they hold the record for the highest price achieved on one lot at a British auction.

In July last year the firm sold a 10.32-acre residential development site in West London on behalf of BRPB for £8.1m. The land at Drayton Bridge Road, West Ealing, W13, has outline permission for housing and a tennis club.

Other notable sales for both BRPB and JLW include a 13.2-acre housing development site at Goodwood Road, Sanford Street, New Cross Gate, London SE14, which together with a 1.25-acre industrial site, was knocked down at £5.45m. The complete opposite to the type of houses offered by Barnard Marcus and Willmotts is the country house or town house, attracting prices of £500,000 and over.

A recent entrant to this sector has been Allsop & Co and the firm have taken on an auctioneer specifically to deal with this side of the business.

Knight Frank & Rutley, well known for their involvement in the private treaty side of country house sales, also hold the occasional auction.

KFR says it would like to see more vendors bringing large properties to auction.

"An auction can be very successful if there are a lot of people bidding. Also, in a trustee sale where there are a number of beneficiaries you get a lot of people and it develops a sense of occasion. The sale is also absolved from any abuse from beneficiaries." Mr John Inge, a partner with KFR points out.

Janice McKenzie

AUCTIONS 4

Fine Art

A lucrative market place

FOR MOST people mention of the word auction conjures up an image of a dapper gentleman at the rostrum at Sotheby's or Christie's coaxing another £100,000 bid for an Old Master or an Impressionist painting. And so it should.

The fine art auctioneers are easily the most successful end of the business. In 1970 Sotheby's had world-wide sales of £30m: last month it made £40m from one two-hour auction in London of Impressionist pictures alone, and in 1987 sales should top £700m.

Christie's has raised its turnover in the same period from £15m to a projected £400m plus this year. Although Sotheby's is now a private company, owned by an American real estate billionaire, Mr Alf Taubman, both exude an image of quintessential Englishness.

The auction houses, thanks to effective promotional departments, have inexorably taken trade in antiques away from the dealers. They now dominate the fine art market. Although dealers and auction houses are often fierce rivals—and the dealers have still not forgiven the auction houses for introducing a 10 per cent buyer's premium ten years ago—they have come to realise that they depend on each other.

Dealers are the main customers of the auction houses, and the auction houses are the obvious market place if dealers want to dispose of goods quickly.

The very success of Sotheby's and Christie's is now their main problem. In the autumn season Sotheby's boosted turnover by 77 per cent, to £331m, *mainly* because of the boom in the Impressionist and the modern picture market. Christie's managed a 35 per cent rise in sales to £208m. How can they keep up such growth?

They will probably both have very successful years because the headlines attached to the sale of a painting by Manet for £7.7m (at Christie's), and a Braque for £6.6m and a Rembrandt for £7.26m (both at Sothebys), not only coaxes out paintings by the same artists owned by profit-conscious owners but encourages the multinational rich to spend some of their wealth on art.

It remains a fact that many billionaires prefer to spend their money on yachts, property, gambling and travel rather than art. But more and more of the yuppie rich in the US are attracted by paintings, and the strength of the yen has turned the Japanese into a nation of buyers of western art, especially impressionist pictures.

The boom in the auction houses has converted art into an investment market and many wealthy men are now trading in Renoirs and Brueghels *with* the same confidence that they buy and sell gold or gilts.

It is very much an international market. But then the auction houses have become just as international. New York *is now as big a market for* Sothebys and Christie's as London (if not bigger) and the salerooms are looking at opening branches in Germany and the Far East. One of the factors behind the recent boom has been that pictures have been sold in weak currency markets—London, New York, Hong Kong—but bought by buyers from strong currency homes—Japan, Switzerland, Germany.

But it is not all coming up roses for the auctioneers. Christie's recently settled a difficult legal case in New York brought by a disgruntled client who did not get what he expected from his collection of paintings sold at auction and along with Sotheby's they face a challenge from local authorities in New York and London about some of their "Spanish practices"—notably taking bids from the chandelier to push prices for lots up to the reserve price. There is also the real threat of the imposition of VAT on the import of works of art which could greatly reduce the attraction of London as a major market place.

But the headlines about record prices give a misleading impression of the world of the fine art auctioneer. Two thirds *of all the lots sold at Sotheby's* go for less than £500, and the real trade is through the hundreds of local auctioneers who provide an excellent service to their locality.

They attract the dealers, and any prize item sold in a provincial saleroom is likely to make a speedy journey to London. Sotheby's and Christie's, with their high overheads, are increasingly reluctant to handle low-priced items: Christie's has its South Kensington operation *to handle such goods, while* Sotheby's sends them to its satellite auction rooms at Pulborough and Chester.

The third British auction house, Phillips, makes a virtue in handling the medium and low-priced articles. It will take most things from, say, a deceased estate, offering them through its three London outlets or its provincial chain of 15 salerooms. It cannot match the high prices of Sotheby's and Christie's so it concentrates on quick payment and a comprehensive service.

No one need be scared of a fine art auctioneer. The menace of "rings" (where dealers rig the price) is largely confined to special occasions in provincial auction houses, but any strange active buyer at a sale dominated by dealers, *as in areas like* jewellery, rugs and carpets, clocks and silver, might expect vigorous bidding from the trade who dislike newcomers.

By fixing a reserve you can ensure that your goods do not sell at auction for ridiculously low prices: it is best to take the advice of the salerooms and not to insist on too high reserves. If you have some really choice properties to sell you need not expect to pay the full 10 per cent commission that the salerooms usually extract from the vendor—competition between them ensures that they will take a reduction to secure goods which will sell for £1m or so and bring them in a comfortable £100,000 plus from buyers.

Not all the procedures in a saleroom would stand the scrutiny of the most fastidious seeker after truth and justice but they remain a quick and public way of buying and selling works of art. There are hidden charges—for insurance, for catalogue illustrations, etc.—which eat into the rewards to the vendor, and many potential buyers are disappointed to find that catalogue estimates are usually exceeded on the day. But after you have researched the do's and dont's you stand a good chance of selling goods at auction on a booming market and buying them at prices considerably less than those demanded by dealers.

Antony Thorncroft

Rock n' Roll items in a Sotheby's sale.

Vehicles

Prices hold up well

THE UK car auction market has developed into one of the most sophisticated in the world.

It is a vital link between fleet operators, small second-hand car dealers, and the general public. Through aggressive development by such groups as British Car Auctions, the market is developing rapidly and expanding both geographically and qualitatively.

What distinguishes car auctions from other auctions is the ready market for the sale items—as most households in Britain aspire to owning or actually own a car—and the relatively high unit price achieved at the sale.

"Average prices can be mis*leading," says Mr David Wick*ins, chairman of British Car Auctions, the leading UK motor auction group. "Our average sale is £1,700, but that is deflated by sales of old Post Office vans for about £130 each. An average sale for a fine art auction house is only £600 even though you only seem to hear about the huge multi-million pound art sales. Every auction house has large and small disposals."

Out of a total of 6.5m cars sold in Britain last year, used cars represented nearly 5m units. Of that, private buyers purchased about 2.8m used cars. The trade proportion of sales has slipped in recent years on a growing public desire to eliminate middlemen.

Three- and four-year-old cars represent the backbone of the auction market, but in theory any make, colour or model will find a buyer. Cars at auctions are sold individually rather than in lots of five or 10, enabling private buyers to bid.

Many used car dealers who cannot afford a large inventory use car auctions to fill specific orders taken from private customers.

"The traditional reasons for buying used cars at auction or elsewhere persist," says Mr Leslie Allen, managing director and managing editor of Glass's Guide Services, the vehicle valuation organisation. "Many people cannot afford new cars, *prices of which are likely to rise* during 1987. This should thus be a very good year for used cars."

Auction prices have held up very well in recent months.

Few cars are imported for auction and even fewer exported. The right-hand drive feature of British cars precludes this.

The leading UK car auction group is British Car Auctions. It sells over 500,000 vehicles (mainly cars) annually which represents almost 60 per cent of the entire auction market. Through its Anglo-American Auto Auctions, it holds about 15 per cent of the US used car market, representing a further 700,000 cars a year.

In the UK, about 90 per cent of its turnover is conducted through trade dealers with the remainder loosely termed "semi-professional" car dealers. In the US, the entire turnover is trade oriented.

BCA charges a basic 7½ per cent commission on the sale of individual cars but this drops to just under 4 per cent on large fleet disposals. Most of the large car makers in Britain channel fleet or leased vehicles through BCA. Ford sells over 10,000 cars a *year* at a flat fee of £105 per vehicle (plus £12 cleaning) regardless of how much it will fetch. Leyland and GM have similar arrangements.

Since BCA has a minimum £50 handling commission per sale, there is little wreck or scrap throughout although all the cars are sold on a strictly "as-seen" basis.

The group operates up to 38 car auctions per week from its 14 UK locations. Total sales last year were £1.7bn with profits just under £14m. Sales in 1987 are expected to exceed £2bn for the first time and profits could top £17m according to some City forecasts.

In mainland Britain, the backbone of the BCA is the Blackbushe Airport complex off the M3. Here a car can be auctioned every 80 seconds.

BCA is believed to be up for sale and 67-year-old Mr Wickins is thought likely to retire soon.

Paul Hannon

A need for guidelines

Continued from Page 1

was holding his pen in an upright position then he was bidding, but if the pen was horizontal, he was not. He bought the property and told Mr Barnett that *his father* had used the same method in Europe over 30 years' ago.

The future of the auction sector will also depend on the state of the rest of the property market. The auction world is dominated by secondary property and any shift in investment criteria by, for example, the big institutions, could make the market move either way.

At present, the institutions and pension funds devote their limited property spending to prime City offices, which show yields of about 4.5 per cent, prime shopping, with yields of around 5.5 per cent, and occasionally prime industrials which show yields of approximately 8 per cent.

Sales of office blocks are rare at auction. Shops show yields of between 6.5 per cent and 10 per cent, and industrials an average of about 14 per cent.

Some are suggesting that funds should look towards the *secondary market more. Such* investment produces a more immediate return which might go towards staving off the effects of obsolescence in buildings in today's rapidly changing market.

It is agreed that investing at, say 5 per cent, will mean that by the time the capital spent is returned the building will no longer be of any use, depending of course on any refurbishment programme which might apply. However, if a parade of shops is bought at 10 per cent, the block will still have some life left in it at the end of the 10-year span in which the capital is recouped.

If the institutions were to move in on the auction market as buyers it could mean the squeezing out of the traditional dealers and small investors. However, the institutional market still seems to be wary of this switch, although many of the big funds and also the larger property companies are more than prepared to sell unwanted stock in this way.

This has a lot to do with the very high prices recently being achieved at auction. Among the factors that will dictate whether *this trend continues will* be the continuing supply of mortgage money for purchasers. At the moment there is no shortage and some firms are setting up their own internal financial services division.

Folkard & Hayward who have *merged with north London-based* Normans now have their own mortgage service and guarantee to arrange a loan of up to 75 per cent of the purchase price of any lot bought at their auctions. Allsop & Co have also introduced a similar service.

Shops still dominate the commercial auction world and this shows no signs of changing. It seems unlikely that offices will ever form a large part of the market, although as high technology buildings age it will be interesting to see whether their owners will use the auction for sale and indeed whether anyone will want to buy the units.

The tenanted and vacant housing sector shows no sign of flagging. Demand for houses, in whatever condition, seems to be insatiable, although they are seldom held for investment purposes but traded on. With this in mind it seems likely that this sector of the market will continue to flourish.

If a future Government relaxes or abolishes the Rent Acts in order to encourage a private rented housing sector, then the situation could alter quite drastically. It would be much more attractive in a freer market for a buyer at auction to hold onto a tenanted house in the hope of raising the rent to a practical level.

At present, if such houses are retained at all they are kept for hope value—taking a view on when vacant possession can be achieved—and prices paid reflect this.

Janice McKenzie

AUTHORISED UNIT TRUSTS

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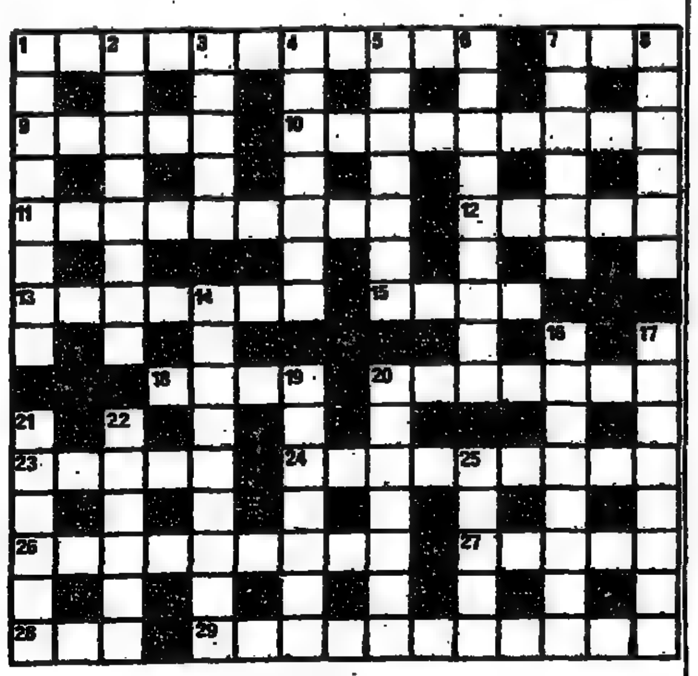
QUARK



ACROSS

1 Place where many subjects are advanced? (11)
7 Taken in by scholar training in 4? (3)
9 This student could be capped (5)
10 Can alter society, changing in the University (9)
11 Importance of famous Head? (9)
12 University in that degree to the North (5)
13 Nearing, erratically, within scope (2, 5)
15 Method of learning about to return within (4)
18 Pulls back for study (4)
20 Domestic vets ran about (7)
23 Jugs—for those wielding axe, losing head? (5)
24 Got down to it again after failing to enter 4? (9)
26 Open University—vessel could be about right for us (9)
27 Giant among the stars (5)
28 Outstanding fit (3)
29 17 would like them—try reactions (4, 7)

DOWN

1 Schoolmasterly Ted in cap askew (8)
2 Man's heartless letter upset spring in Cambridge (4, 4)
3 Course in fashion? (5)
4 Part of Oxbridge or 1 across, could be (7)
5 Abstainer is part of a non-U service (7)
6 Daily performance before the queen shows personality (9)
7 State University's head could be intelligent (6)
8 One in Herts town produces flagging (6)
14 In all directions, covering for information? (9)
16 Raise to the highest 22? (8)
17 Essential to 1 across, 4, 10 and 12 (8)
19 Revs hit exceptional advances (6)
20 University 4 gets answer in short promise (7)
21 and 22 e.g. M.Sc.? (6, 6)
25 Gains, losing it in 10, 12, 20 down? (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

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2nd Series Life Accumulation				
Equity	357.0	377.8	-0.5	—
High Income	305.9	232.7	-0.6	—
Property	216.6	229.2	....	—
Managed	258.6	273.7	....	—
Deposit	177.0	187.3	....	—
Gilt	180.6	191.1	+0.6	—
American	260.6	275.8	....	—
International Money	201.0	212.7	+0.3	—
Index	109.6	116.0	+0.6	—
Far East	210.9	223.2	-0.3	—
Global	103.7	109.7	-0.1	—
European	108.7	115.0	-0.1	—
Japan	116.2	123.0	-0.7	—
Residential Property	96.7	102.3	..	—
2nd Series Pension Accumulation				
Equity	569.3	602.4	-1.0	—
High Income	364.4	385.6	-0.9	—
Property	304.2	321.9	+0.1	—
Managed	374.3	396.1	-0.2	—
Deposit	263.4	278.7	....	—
Gilt	254.9	269.7	+0.5	—
American	410.3	434.2	....	—
International Money	289.5	306.3	+0.8	—
Index	120.5	127.5	+0.5	—
Far East	233.2	246.8	-0.3	—
Global	106.1	112.3	-0.2	—
European	112.6	119.2	....	—
Japan	122.1	129.2	-1.0	—
Residential Property	97.4	103.1	....	—
Other Funds				
Equity Units	76.51		-0.12	—
Property Units	22.87		....	—
Equity Bond/Exec	47.47	50.23	-0.08	—
Property Bond/Exec	30.90	32.70	....	—
Balanced Bond/Exec	36.39	38.5	-0.01	—
L&E SIF 1	120.5	127.5	....	—
L&E SIF 2	78.5	83.0	....	—

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Ivory & Sime Bond	117.0	124.0	....	—
Risk & Reward Bond	150.0	158.0	....	—
Murray Johnstone Fd	135.0	143.0	....	—
Money Market Fd	110.0	116.0	....	—
Investment Strategy Fd	98.0	104.0	....	—
Predator Fd	95.0	100.0	....	—
Ivory & Sime Pens Fd	119.0	125.0	....	—
Risk & Reward Pens Fd	132.0	139.0	....	—
Murray J'stone Pens Fd	133.0	140.0	....	—
Money Market Pens Fd	110.0	116.0	....	—
Inv Strategy Pens Fnd	99.0	105.0	....	—
Predator Pen Fd	95.0	100.0	....	—

Devonshire Life—Contd.

Money	100.5	105.9	....	—
Pen Managed	130.7	137.7		—
Pen World Growth	101.0	106.4	-0.2	—
Pen UK Equity	142.7	150.3	+0.2	—
Pen UK Small Cos	133.5	140.6	+0.5	—
Pen European	102.4	107.9	-0.4	—
Pen Far Eastern	210.3	221.4	-0.8	—
Pen Nth American	93.2	98.2	-0.1	—
Pen Fixed Interest	109.5	115.3	-0.3	—
Pen Index Lnkd Stks	100.7	106.1	-0.1	—
Pen Money	105.2	110.9	....	—

Eagle Star Insurance Co Ltd
Bath Road, Cheltenham GL53 7LQ 0242 221311

Secure Fund	104.3	109.8	....	—
Blue Chip Fund	131.6	138.6	-0.6	—
Performance Fund	159.5	167.9	-0.3	—
Adventurous Fund	154.9	163.1	-0.6	—
Pensions Secure	95.6	100.7	+0.1	—
Pensions Blue Chip	100.8	106.2	-0.5	—
Pensions Performance	102.4	107.8	-0.3	—
Pensions Adventurous	103.1	108.6	-0.6	—
Pensions With Profits	99.2	104.5	-0.2	—

Eagle Star Insur./Midland Assur.
1 Threadneedle St, London EC2 01-588 1212

Eagle/Mid. Units	174.3	180.7	-0.8	4.15

Equitable Life Assurance Society
4 Coleman Street, London EC2R 5AP 01-606 6611

Far Eastern	180.8	190.3	+0.2	—
Fd of Inv Tsts	149.5	157.4	....	—
Gilt & Fixed Int	116.0	122.1	+0.3	—
High Income	164.6	173.3	-0.7	—
Intnl Growth	112.5	118.4	+0.1	—
Managed	135.8	142.9	-0.1	—
Money	109.2	114.9	..	—
North American	124.5	131.0	+0.2	—
Pelican	153.3	161.4	-0.8	—
Property	108.8	114.5	+1.3	—
Special Sits	159.2	167.6	-0.6	—
School Fee Managed	149.0	156.8	-0.3	—
Pension Funds				
Far Eastern	207.5	218.4	+0.2	—
Fd. of Inv. Tsts	165.1	173.8	....	—
Gilt & Fixed Int	120.5	126.8	+0.5	—
High Income	188.2	198.1	-1.2	—
International Growth	116.7	122.8	+0.2	—
Managed	149.0	156.8	-0.3	—
Money	118.8	125.1	....	—
North American	130.2	137.1	+0.2	—
Pelican	170.9	179.9	-1.2	—

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ‡ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ⊕ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	27	NEI	8
Amstrad	15	Nat West Bk	48
BAT	35	P & O Dfd	45
BOC Grp	28	Plessey	16
BSR	11	Polly Peck	16
BTR	26	Racal Elect	15
Babcock	16	RHM	24
Barclays	42	Rank Org Ord	45
Beecham	40	Reed Intnl	25
Blue Circle	55	STC	13
Boots	22	Sears	12
Bowaters	32	TI	40
Brit Aerospace	42	TSB	8
Brit. Telecom	17	Tesco	36
Burton Ord	26	Thorn EMI	42
Cadburys	17	Trust Houses	15
Charter Cons	24	Turner Newall	18
Comm Union	28	Unilever	148
Courtaulds	26	Vickers	36
FNFC	17	Wellcome	17
Gen Accident	75	**Property**	
Gen Electric	15	Brit Land	36
Glaxo	85	Land Securities	30
Grand Met	40	MEPC	32
GUS 'A'	85	Peachey	24
Guardian	75	**Oils**	
GKN	24	BOM	3½
Hanson Tst	18	Brit Petroleum	50
Hawker Sidd	42	Burmah Oil	32
ICI	75	Charterhall	4
Jaguar	42	Premier	3½
Ladbroke	32	Shell	65
Legal & Gen	20	Tricentrol	8
Lex Service	32	Ultramar	17
Lloyds Bank	38	**Mines**	
Lucas Inds	46	Cons Gold	62
Marks & Spencer	18	Lonrho	22
Midland Bk	48	Rio T Zinc	62
Morgan Grenfell	26		

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)						
10 Aug	10 Feb	Treas 10¼pcCv '87	99 13/16	5.1	—	—
24Aug	24Feb	Exch 2½pc 1987	99 [illegible]	19.1	—	—
6Oct	6Apr	Exch 10½pc 1987	99 [illegible]	1.9	10.51	10.95
1 Nov	1 May	Funding 6½pc 85-87	99 [illegible]	25.9	6.56	10.03
12Dec	12Jne	Treas. 10pc 1987	99¼	18.12	10.03	10.71
14Jan	14Jly	Treas 3pc 1987	97 [illegible]	8.12	3.07	8.20
3May	3Nov	Treas 12pc 1987	101 [illegible]	29.9	11.87	10.43
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	98 [illegible]	22.12	7.90	9.87
10Nov	10May	Exch 10½pc '88	100 [illegible]	6.10	10.49	10.40
14Dec	14Jne	Treas 9¾pc Cv '88	99¼	18.12	9.82	10.32
1Jan	1Jul	Transport 3pc '78-88	93⅝	25.11	3.20	7.86
25 Apr	25 Oct	Treas. 9½pc '88	98 [illegible]	18.9	9.64	10.37
22 Aug	22 Feb	Treas 11½pc 1989	102¼xd	26.1	11.26	10.34
18 Oct	18 Apr	Treas 9½pc Cnv 1989	98¼	11.9	9.67	10.38
15Nov	15May	Treas 3pc 1989	90	9.10	3.34	7.90
14Dec	14Jun	Treas 10½pc 1989	100 [illegible]	18.12	10.47	10.34
1Feb	1Aug	Exch.10pc 1989	99¼	29.12	10.08	10.36
29 Mar	29 Sep	Exch 11pc 1989	101 [illegible]	26.8	10.85	10.39
15 Apr	15 Oct	Treas 5pc 1986-89	90 [illegible]	8.9	5.52	8.97
15 May	15 Nov	Exch 10¼pcCv '89	101¼	9.10	10.15	9.81
15 Jul	15 Jan	Treas 13pc 1990‡‡	106 [illegible]	9.12	12.18	10.29
12 Aug	12 Feb	Exch 11pc 1990‡‡	101 [illegible]xd	6.1	10.80	10.28
22 Sep	22 Mar	Exch. 12½pc 1990	105 [illegible]	18.8	11.83	10.33
8 Nov	8 May	Treas. 3pc 1990	85 [illegible]	2.10	3.52	8.21
15 Dec	15 Jun	Treas 8¼pc 1987-90‡‡	95½	18.12	8.63	9.82
25 Apr	25 Oct	Treas. 10pcCv 1990	98 [illegible]	18.9	10.11	10.34
22 May	22 Nov	Exch 2½pc 1990	82 [illegible]	16.10	3.05	8.09
10 July	10 Jan	Treas 11¾pc 1991	104½	4.12	11.24	10.32
5Oct	5Apr	Funding 5¾pc '87-91‡‡	88 [illegible]	1.9	6.51	9.16
13 Nov	13 May	Treas. 3pc 1991■	81 [illegible]	—	3.69	8.28
12Jan	12July	Treas 10pc Cv '91	100 [illegible]	8.12	9.95	9.87
25Apr	25Oct	Exch. 11pc 1991	102 [illegible]	18.9	10.73	10.29
22Jly	22Jan	Treas 12¾pc 1992‡‡	109½	16.12	11.65	10.27
Five to Fifteen Years						
21Aug	21Feb	Treas 10pc 1992	99¼xd	15.1	10.09	10.23
7 Nov	7 May	Treas 10½pc Cv 1992‡‡	101	1.10	10.40	10.25
25 Feb	25 Aug	Exch 12¼pc '92	108xd	19.1	11.34	10.32
22Mar	22Sep	Exch 13½pc 1992	113 [illegible]	18.8	11.95	10.38
15Oct	15Apr	Treas 10pc 1993‡‡	98 [illegible]	8.9	10.14	10.29
14Jan	14Jul	Treas 12½pc 1993‡‡	110 [illegible]	8.12	11.36	10.33
[illegible]						

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
May	Nov	Mettoy 10p	73	[illegible]	12.46	2.6	4.4	12.0
Jan	May	Mitchell Cotts	60½	[illegible]	1.5	2.1	3.5	15.6
Feb	Aug	Moss & Crane 10p	132	[illegible]	12.7	2.9	3.2	14.9
Jan.	July	Morgan Crucible	221	[illegible]	10.5	1.5	3.7	22.3
—		Morris (W) F.A. 20p	26	—	—	—	—	—
July	Oct	Myson Grp 10p	168	29.9	12.63	2.6	2.2	21.7
Nov	June	NMW Computers	243	15.10	16.5	3.0	3.4	14.3
Mar.	Sept.	Nash Inds.	[illegible]	22.1	1.5	♦	1.3	♦
—		Neil & Spencer 10p	25	[illegible]	—	—	—	—
Jan	July	Newman Inds 10p	37	15.9	16.6	1.5	3.0	28.3
Apr	Sept	Noble & Lund 10p	90	29.9	0.7	4.3	1.1	29.6
—		Nobo Group 10p	153	—	R4.75	2.8	4.4	11.6
April	Dec	Norton	52	[illegible]	1.2	2.9	3.2	14.9
Oct	June	Novacek Systems 5p	142	15.9	m1.5	—	1.5	18.2
Jan.	Aug.	Norcros	266	[illegible]	19.3	2.3	4.9	12.2
Oct.	April	Nu-Swift 5p	249	[illegible]	13.5	2.1	2.0	33.5
May	Nov	OCE 9pc Cnv 1987-92	£222½	[illegible]	Q9%	—	[illegible]	—
Dec	Aug	Oakwood Grp.	125	[illegible]	4.0	♦	4.5	♦
Dec	July	Office & Elect	289	[illegible]	12.5	2.9	6.3	7.2
—		Oommech 1p	31	—	—	—	—	—
—		Colorimetrics $0.01	[illegible]	—	—	—	—	—
May	Nov	Oriflame £1	868	29.9	Q28.5	2.1	5.0	15.7
Jan.	June	Overstone 12½c	[illegible]	[illegible]	[illegible]	1.9	17.4	3.0
Oct.	June	PCT Grp 10p	335	15.9	[illegible]	—	4.9	—
—		PLM 'B' Sk 25	[illegible]	[illegible]	[illegible]	0.3	3.7	—
	June	Pacer Systems $0.01	115	[illegible]	[illegible]	4.3	1.6	14.5
	June	Pacific Dunlop $0.50	176	[illegible]	[illegible]	2.1	2.8	17.7
Apr.	Dec.	Pacific Sales 10p	46	15.9	3.0	1.4	9.2	11.0
Apr	Nov	Parker Knoll 'A'	490	[illegible]	12.0	3.2	3.5	12.6
—		Parkfield Group 2p	[illegible]	[illegible]	[illegible]	4.2	2.4	13.4
—		Pavion Intl.	23	—	—	—	—	8.8
Aug.	Feb.	Do. 11pc Cnv '94-92	[illegible]	11.8	Q11%	—	[illegible]	—
June	Nov	Pearson	577	15.9	[illegible]	2.8	2.4	18.8
—		Peek Hold Grp 5p	51	—	—	—	—	—
Mar	Oct	Pentos	[illegible]	[illegible]	[illegible]	2.0	5.5	[illegible]
July	Dec	Pentland 10p	[illegible]	15.9	[illegible]	22.4	0.2	31.2
May	Dec	Photo-Me	[illegible]	[illegible]	5.75	10.0	0.4	19.6
Feb.	Aug.	Pilkington Br. £1	685	[illegible]	[illegible]	2.5	4.5	[illegible]
		Do. Warrants	275	—	—	—	—	—
June	Dec.	Pitney-Bowes Cm. Ln.	[illegible]	[illegible]	Q5½%	—	1.0	—
Sept.	Apr.	Plastic Const. 10p	74	11.8	12.8	♦	5.5	♦
—		Plasmum 5p	[illegible]	[illegible]	—	—	—	12.1

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

CONSTRUCTION CONTRACTS

Tourist hotel in China

BECHTEL is helping to meet the burgeoning demand for tourist accommodation in Xian, China, a city that has a history of more than 2,200 years, by designing a US$30m (£19.5m) hotel. China American International Engineering, Inc (CAIEI), Bechtel's joint venture engineering and construction company in China, has completed the conceptual design and started preliminary engineering on the international class Guoan Hotel.

The 16-storey, 482-room facility will be built on central Fenghao Road in the western suburb of Xian, at the starting point of the renowned "Silk Road," an ancient trade route that dates back to 200 AD.

The facility will be owned by Guoan Hotel, a joint venture between China International Trust and Investment Corporation (CITIC) of Beijing, Northwest Feipeng, of Xian, and Shortridge of Hong Kong. It will be operated by the Sheraton Corporation. CAIEI is co-operating with the China Northwest Building Design Institute of Xian to complete design and engineering of the contemporary hotel.

The hotel will include 466 guest rooms, 15 executive suites and a presidential suite. Public facilities will include three restaurants, a coffee shop, cocktail lounge, banquet facilities, meeting rooms, swimming pool, health club and several lobby shops. Completion is scheduled for late-1989.

Xian, designated by China as one of its four most important tourist cities, is brimming with history. More than 12 dynasties, dating back to the 11th century BC, have resided there. In their wake they left magnificent palaces, mausoleums, temples and pagodas. *Just a few miles* away is one of the wonders of the world, Emperor Qin's terra-cotta warriors and horse pits.

With the continuous excavation of ancient remains and the establishment of a new airport in Xian, the tourist industry is growing rapidly. Last year more than 280,000 foreign guests visited the city and the number is expected to increase considerably this year. CAIEI is a joint venture between International Bechtel, Inc and CITIC.

Kyle Stewart builds superstores

A contracts package worth £40m for design and construction of superstores for Tesco and Marks and Spencer has been won by **KYLE STEWART**. Largest of the three projects is a joint development at Brookfield Farm, next to the A10 at Cheshunt, Herts. Work has just started on a project worth £18m. It includes enlargement of the 63,000 sq ft Tesco store on the site to 95,000 sq ft; construction of a new 95,000 sq ft Marks and Spencer store; a link entrance containing smaller shop units; provision of up to 1,900 car parking spaces, and alterations to link roads. Completion is due in February next year.

At Watford, Herts, work has also started on a £12m development of a former brewery site, to provide a 74,000 sq ft Tesco superstore, due for completion early next year. In a massive earth-moving operation, the entire site level is being raised by one metre above the flood plain; the River Colne is being diverted; a new weir provided, and a major reinforced concrete road bridge constructed as part of a link with the M1 motorway.

The third project is at Copdock Mill, Ipswich, where a 71,000 sq ft superstore is being provided under a £10m contract. Work includes construction of a link road to the A12, a petrol filling station, restaurant, coach, lorry and customer car parks, and a bus lay-by. Overall completion is due later this year.

Paddington re-roofing

Thirteen acres of glass and plastic are being demolished at Paddington Station in a £4.5m restoration project. Around 50,000 passengers and many thousands of sacks of mail cross the Lawn, as Paddington's concourse is known, every day. Because of the constant activity within the confines of the Lawn, engineers will construct a protective cocoon of scaffolding and timber enabling the station to continue functioning almost *normally. The £304,000 contract* for the renewal of the roof above the Lawn has been placed with **A. MONK AND CO.** Glass panels will be stripped from the roof, the steelwork will have some minor repairs and a coat of paint, then glass-reinforced plastic panels will be fitted. Work on this part of the roof, which was built in 1930, will be completed by late summer 1987. In the autumn work on the roof, designed by Brunel and a Grade 1 listed structure, will begin and in four years the bulk of the 13-acre roof will be completely renewed.

*

Jaguar Cars has awarded a £382,000 contract to **BALFOUR BEATTY BUILDING** for the upgrading of part of the perimeter road at its factory at Brown Lane, Coventry. In Sheffield, Balfour Beatty will construct a multi-screen cinema valued at £2.4m under an extension to a contract from Chesterfield Properties at its Crystal Peaks Development. The works are due for completion in May 1988.

Space theatre for Dublin

TANDATA has won a £5.5m contract to build Ireland's Dun Laoghaire Space Theatre. Sister company, developers Tandata (Ireland), is to build the "Tomorrows Ireland" complex in the heart of Dublin, a complex likely to generate between 400,000 and 500,000 visitors each year. The estimate is based on the experience of cities in North America where the entire concept of the Space Theatre is relatively new. The complex will be first of its kind in the country, Europe's third and one of the most modern facilities of its type in the world. Building will start shortly on the site of the former Pavillion Cinema.

Leadenhall development

TROLLOPE AND COLLS CONSTRUCTION (a member of the Trafalgar House Group) has been awarded a £19.6m contract to build a seven-storey office and retail development at Leadenhall Court, EC3, by The Legal and General Assurance Society. The reinforced concrete structure will provide a floor area of 181,900 sq ft. The retail units, which will have aluminium fronts and doors, will be at ground level, and the offices will be centred around a tropically planted atrium, on floors one to six. The atrium roof is to be covered with double-glazed aluminium-framed glazing on a tubular structure, and a granite floor. Construction has started for completion at the end of February 1989. The Museum of London has a watching brief until completion of the excavations.

Steel caster at Rotherham

TARMAC CONSTRUCTION is to help lay *the foundations* for introducing a continuous steel-casting process at Rotherham Engineering Steels' Aldwarke works. The company has won a £16m slice of the Aldwarke bloom caster project, a £65m steel-casting modernisation programme for RES, part of the United Engineering Steels Group. The contract involves construction of a large building with foundations up to 21 metres below ground level. The project will involve pouring extensive mass concrete and reinforced concrete foundations. Tarmac Construction's work — which at its peak will have a 200-strong workforce — also concerns overcoming the problem of driving foundations through existing coal seams. Construction work involves removal of 70,000 cu metres of earth, pouring 50,000 cu metres of concrete and using 3,000 tonnes of steel reinforcement.

City bank expands

A £12.5m contract *for an office* development at 17-19 Throgmorton Avenue and 21 Austin Friars in the City has been awarded to **JOHN MOWLEM AND CO** by MEPC. The building will form a new headquarters for merchant bankers Morgan Grenfell and Co. The 55,000 sq ft net development will be built on piled foundations with a basement, lower ground, ground floor and six floors above, the top two being within the slated mansard roof. Construction will be reinforced concrete frame with a central atrium and classical style Portland stone facades designed to match the Victorian facade on the Austin Friars elevation which is being retained. There will be link bridges to No 23 Great Winchester Street which is also occupied by Morgan Grenfell and the old vaults underneath the road are being retained as part of the scheme. The basements will be of watertight construction with a special *tanking membrane. Finishes* will be to a high standard with extensive use of marble, fibrous plaster ceilings and hardwood skirtings. Work has just started for completion in April 1988.

WORLD STOCK MARKETS

AUSTRIA

1986/87 High	Low	Jan. 30	Price Sch
2,650	2,075	Credit'nst'lt pp	2,045
3,850	2,990	Goesser	2,995
16,000	12,700	Interunfall	12,900
21,750	9,180	Jungbunzlauer	9,180
2,475	1,950	Laenderbank	2,030
795	560	Perlmooser	650
211	143	Steyr Daimler	143
12,500	8,850	Veitscher Mag	10,965

BELGIUM/LUXEMBOURG

1986/87 High	Low	Jan. 30	Price Frs.
3,600	2,290	B.B.L.	3,070
16,550	9,600	Banq. Gen. Lux.	15,500
17,000	9,400	Banq. Int.A.Lux.	15,150
14,600	8,250	Bekaert	9,110
4,660	2,640	Ciment CBR	4,350
295	120	Cockerill	137
3,240	1,662	Delhaize	2,750
5,110	3,580	EBES	5,100
2,700	1,790	Fabrique Nat.	1,790
986	358	GB Inno BM	926
4,625	2,695	GBL (Brux)	3,795
6,800	4,310	Generale Bank	6,250
6,850	4,750	Gevaert	6,080
8,150	5,700	Hoboken	7,850
3,995	2,880	Intercom	3,975
4,450	2,430	Kredietbank	4,200
11,650	9,900	Pan Holding	10,650
9,980	6,050	Petrofina	9,560
29,488	17,200	Royale Belge	28,396
3,600	2,120	Soc. Gen. Belge	3,330
13,400	7,710	Sofina	12,150
9,000	6,050	Solvay	8,880
585	185	Stanwick Intl.	250
6,770	4,675	Tractebel	6,350
10,300	5,300	UCB	9,940
6,200	3,705	Wagons Lits	6,550

DENMARK

1986/87 % High	Low	Jan. 30	Price Knr. %
960	510	Baltica Skand.	960
348	235	Cop Handelsb'nk	286
470	316	D. Sukkerfab.	386
381	259	Danske Bank	367
298	160	East Asiatic	227
1,240	870	Forenede Brygg.	970
665	289	GNT Hld.	336
835	505	I.S.S.B.	815
845	450	Jyske Bank	555
281	218	Novo Inds*	248
339	229	Privatbanken	284
1,060	685	Sophus Berend.	855
351	119	Superfos	169

FINLAND

1986/7 High	Low	Jan. 30	Price Mks
229	100	Amer	191
65	43.75	KOP	46
275	181	Kone	195
171	87.2	Finnish Sugar	97
169	63.6	Nokia	145
233	57.5	Pohjola "B"	73.7
95.5	14	Rauma-Repola	20.5
266	94	Stockmann "B"	150
39	25.4	UBF "C"	30.3
240	120	Wartsila (B11)	167.5

NORWAY

SWITZERLAND

HONG KONG

GERMANY

FRANCE

SINGAPORE

SOUTH AFRICA

AUSTRALIA

ITALY

NETHERLANDS

SWEDEN

JAPAN

SPAIN

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO

Closing prices January 30

MONTREAL

Closing prices January 30

OVER-THE-COUNTER

Nasdaq national market, closing prices, January 30

Continued from Page 37

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

WORLD MS. Capital Intl. (1/1/70)	—	399.9	401.6	397.3	401.6 (28/1/87)	248.8(23/1/86)

** Saturday January 24: Japan Nikkei 19,539.5. TSE 1,677.12.

Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrial—264.3, and Australia, All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors 10; and Toronto Composite and Metals—1,000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financial and 20 Transports. c Closed. u Unavailable.

Closing prices, January 30

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
28⅝	17	AAR s	.50	1.8	20	261	28	27¾	27⅞	−⅛
30½	21⅞	ADT	.92	3.2		232	29⅜	29	29⅛	−¼
37⅞	17¾	AFG s	.12i	.3	11	300	36⅞	35⅝	35⅝	−1⅝
34⅞	16¾	AGS			22	253	33¼	33	33	
15	6¾	AMCA				58	7⅜	7⅛	7⅛	
62⅛	46	AMR			12	8483	57⅝	56⅜	56½	−1½
16½	10	ARX	.71t	6.2	11	74	11¾	11⅜	11½	−⅛
42⅛	28¾	ASA	2a	5.0		801	40½	39⅞	40¼	−1⅛
18⅜	9¾	AVX			23	209	14⅛	13⅞	14	+⅜
32	26	AZP	2.72	8.9	10	2494	30⅝	30⅛	30½	
55¼	31⅝	AbtLb s	.84	1.5	23	3502	54¾	54¼	54½	−⅛
32	25	AccoWd	.52	2.2	18	221	28½	28⅛	28½	+½
14⅛	9	AcmeC	.40	3.5	21	60	11⅝	11¼	11⅜	−¼
9¼	6⅛	AcmeE	.32b	4.1	27	19	7¾	7½	7¾	
23⅞	17½	AdaEx	3.42e	16.		75	21	20⅞	21	+⅛
16⅝	9¾	AdmMl s				71	14	13¾	14	−¼
20⅝	12⅛	AdvSys	.62t	3.2	16	114	19½	19	19½	+⅜
32⅞	12⅞	AMD			6	5363	17½	16½	17½	+½
11⅞	5⅛	Adobe				609	8⅝	8¼	8⅝	
18	13¾	Adob pf	1.84	10.		47	u18⅛	17¾	17¾	−¼
21¼	16⅝	Adob pf	2.40	11.		85	21⅛	21	21	−¼
18⅝	11½	Advest	.12a	.9	11	238	13⅝	13	13¼	
66¼	53	AetnLf	2.64	4.4	9	3978	61	59½	60¼	−¾
43⅝	18	AfilPb s	.32	.8	40	88	42⅜	41⅞	41½	−⅝

Continued on Page 37

NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14½	11⅜	SavE pf1.28	9.4							
4½	1⅝	Savin				430	2¼	2	2¼	+¼
6½	3⅛	Savin pf				25	3⅞	3⅞	3⅞	
42⅞	28⅛	SCANA2.32		5.9	13	99	39	38¾	39	
90⅝	59½	SchPlo 80		2.1	25	1806	89¼	87	87¼	−1
37½	27¼	Schlmb1.20		3.3		5483	36⅝	35¾	35⅝	+⅜
14¾	8½	SciAtl	.12	.8		4032	14⅝	13¾	14⅛	+⅝
79¼	51	ScottP	1.36	1.7	16	1180	u79⅜	78½	79	+⅝
16⅛	12	Scottys .52		3.9	17	191	13⅝	13⅛	13⅝	+¼
34¼	12¾	SeaCnt .42		2.8		126	15⅜	14¾	14⅞	−¼
14⅛	7¾	SeaCt pf1.46		13.		27	11⅝	11¼	11⅝	+¼
16⅞	10½	SeaC pfB2.10		14.		36	15	14¾	15	+¼

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22¾	13⅜	TritEng.10b		.6	13	40	16¾	16⅝	16⅝	−¼
26⅛	20¾	TrltE pf	2	7.8		16	25½	25½	25½	
65	43	TucsEP3.30		5.2	14	375	63¾	62⅝	63¾	+⅞
24	10⅝	Tultex s .32		1.5	16	298	22	21½	22	
18¾	14¼	TwinDs .70		4.0		5	17⅝	17⅝	17⅝	+¼
49⅞	28½	Tycol. s .40		.8	20	539	u49	48½	49	+¼
17⅞	11¼	Tyler	.40	3.2	18	91	12¾	12⅝	12⅝	+¼
		U U U								
64¼	48½	UAL	1	1.9	214	7288	53⅝	52½	53⅝	
32½	15¼	UCCEL			29	50	30⅛	29⅝	29⅝	−⅝

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
41⅛	13⅝	Wurltzr				4	27⅛	27⅛	27⅛	
17½	11	WyleLb .32		2.0	35	287	15¾	15½	15⅝	+⅛
25¾	15	Wynns	.60	3.0		67	20	20	20	−¼
		X Y Z								
72¼	48⅝	Xerox	3	4.4	16	4549	68¼	67½	68⅞	−¼
58¼	55	Xerox pf5.45		9.6		70	57¼	56½	56⅝	−⅝
28¾	21⅜	XTRA	.64	2.4		134	27	26¾	26⅞	−⅛
19	13½	Yorkln n				489	18½	18	18¼	
7	2¼	Zapata				568	3¼	3⅛	3¼	
43⅞	20¾	Zayre s .52		1.2	18	2174	26	25½	26	+¼
29⅞	17⅞	ZenithE				454	24⅝	24	24¼	−¼
18¼	8	ZenLb s			56	610	9	8¾	9	
22⅝	12⅜	Zero s .36		2.1	19	186	17⅜	16⅞	16⅞	−⅛
45¾	32¾	Zurnin 1.32		3.2	16	184	40¾	40	40⅝	−⅜
10⅜	8¾	Zweig n.10e		1.1		641	9½	9¼	9⅜	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices January 30

OVER-THE-COUNTER

Nasdaq national market, closing prices, January 30

Continued on Page 35

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Washington cautious despite trade improvement

By Colin Millham

THIS IS likely to be a week when the foreign exchanges are mainly influenced by comments from officials in the US, Europe and Japan.

In Washington there may be some explaining to do, after Mr James Baker, US Treasury Secretary, said December's trade deficit was likely to be similar to November's figure, which was reported at a record $19.2bn. Mr Clayton Yeutter, US Trade Representative, warned he expected no improvement in the deficit, but the December shortfall turned out to be a much better figure of $10.7bn. When the trade figures were published on Friday the November deficit was revised down to $15.44bn, after new information on actual shipments, but the US Commerce Department cautioned against comparing revised and unrevised monthly figures.

Remarks by Mr Baker and Mr Yeutter had encouraged forecasters that the December deficit could be over $20bn, although immediately ahead of the announcement on Friday the dollar was recovering on short covering, as forecasts were revised downwards. According to Money Market Services the median estimate was for a deficit of $13.8bn.

The short covering reflected the very wide range of forecasts, but not many were in the region of $10bn. There was some caution however on the way the deficit had been reduced. It resulted from a sharp fall in the value of imports to $29.1bn from $37.8bn, while exports were virtually unchanged at $18.43bn.

Rumours circulated for most of the week about an early meeting of Group of Five Finance Ministers from the US, UK, France, Japan and West Germany, to discuss the weakness of the dollar. Japan appeared to be particularly keen to hold a meeting.

US strategy is likely to concentrate on the overall picture when discussing any measures to limit the dollar's decline, rather than any one month showing a sudden improvement in the trade picture.

For all of 1986 the US trade deficit was a record $169.8bn, compared with $148.5bn in 1985. During the period the US had deficits with all its major trading partners.

On the other hand the Japanese trade surplus for last year was a record $92.66bn, aganst $55.99bn in 1985.

In December Japan's trade surplus rose to a record $10.17bn from $8.50bn, which was almost exactly the reverse of the US deficit. West Germany's trade surplus in December rose to a record DM 11.6bn ($6.3bn) from DM 10.2bn in November.

Stockbroker James Capel warned that December's improvement in the US trade deficit had merely offset the awful November figure, and that the annual shortfall was around the level of the worst expectations before the November release. Capel forecasts that the deficit for 1987 will fall slightly to $140-145bn, but adds the deficit will not go away quickly. On this basis Capel still regards the dollar as vulnerable.

After the trade announcement Mr Baker and Mr Yeutter remained cautious. Mr Baker warned that the December figure did not necessarily indicate a downward trend, while Mr Yeutter cautioned that despite the progress the deficit is still unacceptably high.

This may indicate that the US is prepared to maintain a tough line with its trade partners, particularly Japan.

Earlier in the week Mr Satoshi Sumita, Governor of the Bank of Japan, appeared to threaten the US position on trade and exchange rates by suggesting the weaker dollar is likely to reduce capital flows from Japan to the US.

£ IN NEW YORK

Jan 30	Close	Previous Close
£ Spot	1.5135-1.5145	1.5350-1.5360
1 month	0.58-0.56 pm	0.58-0.56 pm
3 months	1.83-1.80 pm	1.85-1.83 pm
12 months	6.27-6.17 pm	6.30-6.20 pm

Forward premiums and discounts apply to the U.S. dollar.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu January 30	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.6922	+0.55	+0.55	± 1.5344
Danish Krone	7.85212	7.80761	−0.57	−0.57	± 1.6404
German D-Mark	2.05853	2.06224	+0.18	+0.18	± 1.0981
French Franc	6.90403	6.86806	−0.52	−0.52	± 1.3674
Dutch Guilder	2.31943	2.32238	+0.13	+0.13	± 1.5012
Irish Punt	0.768411	0.776697	+1.08	+1.08	± 1.6684
Italian Lira	1483.58	1468.19	−1.04	−1.04	± 4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Feb.	Mar.	Apr.	June	Puts—Last Feb.	Mar.	Apr.	June
1.30	21.40	21.40	—	21.40	0.00	0.00	—	0.12
1.35	16.40	16.40	—	16.40	0.00	0.02	—	0.41
1.40	11.40	11.40	11.40	11.40	0.00	0.15	0.35	1.14
1.45	6.40	6.40	6.40	6.42	0.01	0.77	1.24	2.57
1.50	1.40	1.60	3.17	3.74	0.28	1.05	3.18	4.89
1.55	0.30	1.10	1.33	1.96	4.18	5.55	6.34	8.11
1.60	0.00	0.29	0.45	0.92	8.88	9.74	10.46	12.07

Estimated volume total, Calls 40 Puts 20

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Feb.	Mar.	April	June	Puts—Last Feb.	Mar.	April	June
1.35	—	—	—	—	—	—	—	—
1.40	4.00	4.00	4.00	4.00	0.30	0.30	0.50	0.95
1.45	9.00	9.00	9.00	9.20	1.00	1.00	0.95	1.90
1.50	4.10	4.40	4.90	5.50	1.20	2.45	2.20	3.75
1.55	1.10	1.80	2.25	3.05	4.95	5.70	4.90	6.50
1.60	0.35	0.70	1.00	1.60	6.80	7.60	8.50	0.10
1.65	—	—	—	—	—	—	—	—

Previous day's open int: Calls 499 Puts 600

STERLING INDEX

	Jan. 30	Previous
8.30 am	68.6	68.6
9.00 am	68.6	68.5
10.00 am	68.8	68.7
11.00 am	68.5	68.7
Noon	68.8	68.7
1.00 pm	68.8	68.7
2.00 pm	68.7	68.7
3.00 pm	68.4	68.7
4.00 pm	68.5	68.8

EXCHANGE CROSS RATES

Jan. 30	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.514	2.773	232.5	9.245	2.338	3.130	1971.	2.030	57.20
$	0.661	1.	1.832	153.6	6.108	1.544	2.068	1302.	1.341	37.80
DM	0.361	0.546	1.	83.86	3.335	0.843	1.129	710.7	0.732	20.63
YEN	4.301	6.510	11.92	1000.	39.76	10.05	13.46	8475.	8.729	246.0
F Fr.	1.082	1.637	2.999	251.5	10.	2.528	3.386	2131.	2.195	61.87
S Fr.	0.428	0.647	1.186	99.47	3.955	1.	1.339	843.0	0.868	24.47
H Fl.	0.319	0.484	0.886	74.28	2.954	0.747	1.	629.6	0.648	18.27
Lira	0.507	0.768	1.407	118.0	4.692	1.186	1.588	1000.	1.030	29.03
C $	0.493	0.746	1.366	114.6	4.555	1.152	1.542	970.9	1.	28.18
B Fr.	1.748	2.646	4.847	406.5	16.16	4.087	5.472	3445.	3.548	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

CURRENCY MOVEMENTS

January 30	Bank of England Index	Morgan Guaranty Changes %
Sterling	68.5	N/A
U.S. Dollar	104.3	"
Canadian Dollar	78.0	"
Austrian Schilling	138.8	"
Belgian Franc	100.9	"
Danish Krone	93.8	"
Deutsche Mark	148.5	"
Swiss Franc	171.4	"
Guilder	135.8	"
French Franc	72.3	"
Lira	48.5	"
Yen	209.4	"

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

EURO-CURRENCY INTEREST RATES

Long-term Eurodollars: Two years 6⅜-6½ per cent; three years 6⅝-6⅞ per cent; four years 7⅛-7⅜ per cent; five years 7¼-7½ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

CURRENCY RATES

Jan. 30	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.828761	0.744419
U.S. Dollar	5.5	1.26759	1.13747
Canadian $	8.20	*	1.52535
Austrian Sch.	4	16.1352	14.4914
Belgian Franc	8½	47.5219	42.6922
Danish Krone	7	8.67348	7.80761
Deutsche Mark	3.0	2.29244	2.06224
Neth. Guilder	4½	2.58969	2.32238
French Franc	9½	7.64800	6.86806
Italian Lira	12	N/A	1468.19
Japanese Yen	3.0	193.307	173.806
Norway Krone	8	8.85158	7.95378
Spanish Peseta	—	163.235	147.871
Swedish Krona	7½	8.16835	7.36798
Swiss Franc	3.5	1.92927	1.73521
Greek Drach.	20½	168.273	150.601
Irish Punt	—	0.865545	0.776697

*CS/SDR rate for Jan. 29; 1.71390

POUND SPOT—FORWARD AGAINST THE POUND

Jan. 30	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5030-1.5385	1.5130-1.5140	0.58-0.55c pm	4.48	1.84-1.79 pm	4.80
Canada	2.0240-2.0605	2.0290-2.0300	0.57-0.48 c pm	3.10	1.85-1.69 pm	3.49
Belgium	56.62-57.32	57.15-57.25	13-8 c pm	2.20	46-37 pm	2.90
Ireland	1.0320-1.0510	1.0410-1.0420	0.20-0.35 p dis	−3.17	0.60-0.90 dis	−2.88
Portugal	213.00-216.06	215.00-216.00	110-265c dis	−10.44	255-525 dis	−7.24
Spain	195.37-197.25	196.40-197.00	20-50 c dis	−2.14	80-125 dis	−2.08
Italy	[illegible]	1970-1971	2pm-1 lire dis	0.30	4-1 pm	1.52
France	[illegible]	9.24-9.25	[illegible]	1.87	[illegible]	1.81
Japan	[illegible]	232-233	[illegible]	6.13	[illegible]	6.88
Austria	19.30-19.53	19.47-19.53	[illegible]	5.30	[illegible]	5.49

Belgian rate is for convertible francs. Financial franc 58.15-58.25. Six-month forward dollar 3.41-3.36 c pm. 12-month 6.30-6.20c pm.
Correction: For Jan 27; Netherlands day's spread, 3.11¾-3.14¼
Correction: For Jan 28; Netherlands day's spread, 3.08-3.10¼

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Jan. 30	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5030-1.5385	1.5130-1.5140	0.58-0.55c pm	4.48	1.84-1.79c pm	4.80
Ireland†	1.4400-1.4879	1.4520-1.4530	1.05-0.90c pm	7.97	3.10-2.85 pm	8.11
Canada	1.3365-1.3423	1.3390-1.3400	0.14-0.17c dis	−1.39	0.42-0.47 dis	1.33
Switzerland	1.4960-1.5540	1.5435-1.5445	0.32-0.28c pm	2.37	0.97-0.92 pm	2.48

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.40-38.50.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.5135	1.5079	1.4954	1.4797	1.4510
D-mark	2.7725	2.7580	2.7261	2.6846	2.6079
French Fr.	9.2450	9.2316	9.2007	9.1662	9.0895
Swiss Fr.	2.3375	2.3243	2.2954	2.2584	2.1900
Yen	232.50	231.34	228.60	225.08	218.51

MONEY MARKETS

London watches passively

LONDON INTEREST rates showed little change last week. The mood was generally pessimistic about the prospects for lower bank base rates. Sterling spent most of the period improving against the dollar but losing ground to the D-Mark, and several other major currencies. On Wednesday the pound touched a record closing low of DM 2.7450, but the situation was reversed on Friday after the sharp reduction in the US trade deficit. Sterling recovered to DM 2.7725, almost back to the level at the end of the previous week, but retreated to $1.5135, a fall of 2.40 cents on the day, and about 1 cent on the week.

UK clearing bank base lending rate 11 per cent since October 15

As far as the money market is concerned the pound's movements are cancelling each other out, and dealers do not believe the Bank of England has given any significant support recently. Tuesday's official reserve figures for January are expected to rise by about £100m.

The December UK trade deficit of £763m and the current surplus of £38m were slightly better than most forecasts, but within the general range, and had no impact.

Dealers' main concern appears to be political, rather than economic, with the last three opinion polls showing respectively a large lead for Labour; an even bigger lead for the Tories; and both parties running neck and neck.

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan. 30) 3 months U.S. dollars		6 months U.S. dollars	
bid 6⅛	Offer 6¼	bid 6⅛	Offer 6¼

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY RATES

NEW YORK (4 pm)

Prime rate	7½
Broker loan rate	7¼
Fed. funds	5⅞
Fed. funds at intervention	6 3/16

Treasury Bills and Bonds			
One month	5.20	Three year	6.48
Two month	5.48	Four year	6.63
Three month	5.76	Five year	6.70
Six month	5.83	Seven year	6.99
One year	5.91	10 year	7.18
Two year	6.33	20 year	7.48

Jan. 30	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.00-3.50	3.80-3.95	3.90-4.10	3.90-4.10	4.00-4.20	5.0
Paris	[illegible]	[illegible]	[illegible]	8½-8⅝	[illegible]	8
Zurich	[illegible]	3¼-3⅜	—	[illegible]	—	—
Amsterdam	5½-5⅝	5½-5⅝	—	[illegible]	—	—
Tokyo	4.40625	4.28125	—	4.34375	—	—
Milan	[illegible]	[illegible]	—	[illegible]	—	—
Brussels	6.10	[illegible]	—	7¼-7⅞	—	—
Dublin	14-14¼	14⅛-14⅜	14⅛-14⅜	14⅛-14⅜	13⅜-13⅝	—

LONDON MONEY RATES

Treasury Bills (sell); one-month 10 [illegible] per cent; three-months 10½ per cent; Bank Bills (sell): one-month 10 [illegible] per cent; three months 10⅝ per cent; Treasury Bills, Average tender rate of discount 10.5618 p.c. ECGD Fixed Finance Scheme IV reference date January 1 to 30 (inclusive): 11.098 per cent. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11½ per cent from February 1, 1987: Bank Deposit Rates for sums at seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 10½ per cent; one-three months 10½ per cent; three-six months 10⅝ per cent; six-nine months 10⅝ per cent; nine-12 months 10⅝ per cent; Under £100,000 10 per cent from January 23. Deposits held under Series 5 10¼ per cent. Deposits withdrawn for cash 5½ per cent.

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures r Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ✣ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.